

PREM 19/1770



Crown Agents Tribunal of Enquiry

Future of the Crown Agents

GOVERNMENT MACHINERY

PART 1:  
JUNE 1979

| Referred to         | Date | Referred to        | Date | Referred to | Date | Referred to | Date |
|---------------------|------|--------------------|------|-------------|------|-------------|------|
| <del>23.6.77</del>  |      | <del>16.1.84</del> |      |             |      |             |      |
| <del>12.7.79</del>  |      | <del>23.1.84</del> |      |             |      |             |      |
| <del>13.7.79</del>  |      | <del>30.1.84</del> |      |             |      |             |      |
| <del>19.7.79</del>  |      | <del>22/2/84</del> |      |             |      |             |      |
| <del>30.7.79</del>  |      | <del>10.5.84</del> |      |             |      |             |      |
| <del>18.5.81</del>  |      | <del>22.5.84</del> |      |             |      |             |      |
| <del>24.82</del>    |      | <del>5/7/84</del>  |      |             |      |             |      |
| <del>6.4.82</del>   |      | <del>4.7.85</del>  |      |             |      |             |      |
| <del>2-4-82</del>   |      | <del>29.1.86</del> |      |             |      |             |      |
| <del>8.4.82</del>   |      |                    |      |             |      |             |      |
| <del>16-4-82</del>  |      |                    |      |             |      |             |      |
| <del>14.5.82</del>  |      |                    |      |             |      |             |      |
| <del>21.5.82</del>  |      |                    |      |             |      |             |      |
| <del>24.5.82</del>  |      |                    |      |             |      |             |      |
| <del>15-9-82</del>  |      |                    |      |             |      |             |      |
| <del>27.9.82</del>  |      |                    |      |             |      |             |      |
| <del>30.9.82</del>  |      |                    |      |             |      |             |      |
| <del>16.12.82</del> |      |                    |      |             |      |             |      |
| <del>4.11.83</del>  |      |                    |      |             |      |             |      |
| <del>8/12/83</del>  |      |                    |      |             |      |             |      |
| <del>13.12.83</del> |      |                    |      |             |      |             |      |
| <del>15.12.83</del> |      |                    |      |             |      |             |      |

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PART  
ENDS

Material used by  
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DO NOT DESTROY



● PART 1 ends:-

CDP TO FCO 29.1.86

PART 2 begins:-

FCS TO PM 18.11.87







## Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

Report of the Tribunal appointed to inquire into certain issues arising out of the operations of the Crown Agents as financiers on own account in the years 1967-74. Presented pursuant to the Tribunals of Inquiry (Evidence) Act 1921. HL.149 and HC.364. Published by HMSO 26 May 1982. ISBN 0 10 414982 5

Signed

*S. Gray*

Date

*16/9/2014*

**PREM Records Team**





be Air EC

10 DOWNING STREET

From the Private Secretary

29 January, 1986.

Dear Sir,

## CROWN AGENTS: PENSIONS WORK

Thank you for your letter of 27 January setting out the implications of the proposal that the overseas pensions work now carried out under contract by the Crown Agents should be absorbed into the Overseas Development Administration.

The Prime Minister agrees that the ODA should take over the pensions work as soon as practicable, and is content with the proposed announcement through a written Parliamentary Question.

I am sending copies of this letter to the Private Secretaries to the Secretaries of State for Employment and Scotland, the Minister of State at the Treasury, the Minister for the Arts, the Minister for Overseas Development, and to Michael Stark (Cabinet Office).

Yours sincerely

(C.D. Powell)

L.V. Appleyard, Esq., CMG,  
Foreign and Commonwealth Office.





Foreign and Commonwealth Office

London SW1A 2AH

27 January 1986

Prime Minister  
 Agree that ODA  
 should absorb Crown

Agents' pensions work?

We shall have to pay  
 some compensation to

to Crown Agents, but we  
 Dear Charles, will still be a net saving to public  
 expenditure.

Crown Agents: Pensions Work

Yours  
 CDP  
 207i

Sir Geoffrey Howe held a meeting on 21 January to discuss this, attended by Lord Young, Mr Rifkind, Mr Raison and Mr Brooke (Mr Luce had been consulted beforehand, but was unable to come). Ministers agreed to absorb into the ODA the overseas pensions work now carried out under contract by the Crown Agents. Since a machinery of government change is involved, Sir Geoffrey has asked me to write to you.

The ODA is responsible for the pensions and related benefits of about 47,000 overseas pensioners (estimated expenditure in 1985/86 is £140 million). Most of the benefits derive from public service by expatriate officers in the former dependencies. The Crown Agents' present contract for this work with the ODA (value £2.454m in 1985/86) runs to August 1989. ODA business accounts for 98% of the Division's work.

The Crown Agents' Pensions Division was the scene of prolonged industrial action in 1984. A majority of staff were opposed to the prospective transfer of their jobs out of the public sector in the context of privatisation. As part of the settlement of this dispute Ministers undertook to decide by the end of 1985 whether or not ODA should take over the pensions work. A slight extension of that deadline was possible but we now think it important to announce a decision soon.

Our study shows that value for money and management factors point to a single (ie merged ODA-Crown Agents) operation. Rationalisation will mean net staff savings; and changes which will become necessary as the work declines can be more efficiently accomplished by slimming down a single organisation (based on the ODA, since the Ministerial responsibilities involved must remain there).

/By





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By absorbing the work the ODA stand to make gross savings in public expenditure terms of £544,000 a year in 1985 prices. This arises partly from savings in staff costs and partly because the ODA will no longer have to pay the profit element in the current contract with the Crown Agents. It is true that the Crown Agents will be entitled to claim up to £450,000 a year to the end of the contract in August 1989 as compensation for losing the business. But even in this period there will be a net public expenditure benefit to the ODA, and after 1989 the savings will accrue in full.

Absorbing the work into the ODA means increasing Civil Service numbers by 114. This represents a saving of 17 posts as compared with the number of people expected to be engaged in this work in 1987. The Chief Secretary agreed to such an increase in ODA's manpower in last autumn's PES discussions, on the grounds that it would be justified by the running cost savings.

Dispersal policy is also relevant. Owing to manpower savings the ODA was not able to fulfil its dispersal commitment (reconfirmed in 1979) to move 650 jobs to East Kilbride. The Crown Agents Pensions Division made up most of the shortfall but it is well known that the Crown Agents would much prefer to move the work back to their new headquarters at Sutton. Taking the work into the ODA would help to fulfil our dispersal pledge. It will also avoid industrial relations problems, to which the Secretary of State for Scotland and other Ministers attach importance. Leaving the work with the Crown Agents would mean more trouble with staff. We could sit this out, but it would risk tarnishing the image of the Crown Agents which we want to present to prospective buyers.

Ministers have also considered the effect on the Crown Agents' privatisation prospects of detaching this work. This should be on balance beneficial. Buyers of the operation will be interested in the core business of procurement, rather than in pensions work which will in any case be a declining source of income. Far better, in fact, to clear the issue of the pensions work out of the way, so that we can plan with the Crown Agents board the successful disposal of their core business.

Crown Agents will naturally be disappointed, at least initially. But the cash compensation which we will provide to the end of the present contract should reconcile them to our decision (and will still leave us with net savings). The way will then be clear to privatise the (slimmed) Crown Agents, without the risk of industrial relations trouble. The Foreign Secretary is keen to find a place for an appropriate privatisation bill in the 1986/87 legislative programme.

/The





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The Foreign Secretary therefore proposes that the ODA should absorb the pensions work as soon as practicable, say in 1987. There are no legislative implications. He suggests that Mr Raison should announce the decision through a written PQ (draft enclosed).

I am copying this letter to John Lambert (PS/Secretary of State for Employment), John Graham (PS/Secretary of State for Scotland), Mike Norgrove (PS/Minister of State, Treasury), Paul Thomas (PS/Minister for the Arts), Martin Dinham (PS/Minister for Overseas Development) and Michael Stark (Cabinet Office).

*Yours ever,*

*Len Appleyard*

(L V Appleyard)  
Private Secretary

C D Powell Esq  
PS/10 Downing Street

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DRAFT WRITTEN PQ AND ANSWER

- Q. To ask the Secretary of State for Foreign and Commonwealth Affairs what decision he has reached on the future of the pensions work carried out for the ODA by the Crown Agents Pensions Division in East Kilbride.
- A. I have concluded from a careful study of the issues that this work should be absorbed into the ODA. I believe that we shall achieve the best value for money in handling this substantial but shrinking block of work if we combine the routine administration at present carried out by the Crown Agents with the policy and other work which must remain with the ODA. I have also borne in mind our commitment to maintain a strong ODA presence in East Kilbride. It remains our objective to privatise the main part of the Crown Agents.





TOLD them OK

NR 417

OVERSEAS DEVELOPMENT ADMINISTRATION  
ELAND HOUSE  
STAG PLACE LONDON SW1E 5DH  
Telephone 01-213 5409

*From the Minister*

T J Flesher Esq  
Prime Minister's Office  
10 Downing Street  
LONDON SW1

4 July 1985

*Dear Sir*

**CROWN AGENTS HOLDING AND REALISATION BOARD: ANNUAL REPORT  
AND ACCOUNTS 1984**

There is a statutory requirement that the Report and Accounts, which are separate documents, be laid before Parliament; in the case of the Accounts, this must be done not later than the end of July. The Comptroller and Auditor General is responsible for laying the Accounts, which will be published by HMSO as a Parliamentary document. Responsibility for laying the Report, which will be published by the Board as a non-Parliamentary paper, rests with this Administration.

Provided no last minute problems arise, the Comptroller and Auditor General proposes to lay the Accounts on Wednesday 24 July. We propose to lay the Report on the same day and to arrange for the House of Commons to be informed by means of a Question for written answer on that day. The Answer will indicate that copies of the published Report and Accounts will be placed in the libraries of both Houses as soon as they are available. The timetable for presenting and publishing the Accounts is in the hands of HMSO; it is hoped that publication will be possible about the end of July or early in August but it will not be possible to confirm this until nearer the time. The Board would publish the Report on the same day but it is not expected that any publicity will be given to it.

*now* I should be grateful if you would let me know whether you see any objection to the Report being laid on 24 July.

I am copying this letter to Murdo MacLean (Chief Whip's Office), Miss Lewis-Jones (Lord President's Office), Anthony Cary (FCO), Mr Johnson (FCO Parliamentary Unit) and John Salvesson (Treasury).

*Yours sincerely*

*Nan Andrew*

(Nan Andrew)  
Parliamentary Clerk



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OVERSEAS DEVELOPMENT ADMINISTRATION  
ELAND HOUSE  
STAG PLACE LONDON SW1E 5DH

Telephone 01-213 5409

From the Minister

*T. FLESHER*  
~~Charles Powell~~ Esq  
Prime Minister's Office  
10 Downing Street  
LONDON SW1

5 July 1984

*Chabbe*  
*OK*  
*CA pa*  
*A*

*Dear Tim*

CROWN AGENTS HOLDING AND REALISATION BOARD:  
REPORT AND ACCOUNTS 1983

There is a statutory requirement that the Report and Accounts, which are separate documents, be laid before Parliament; in the case of the Accounts, this must be done not later than the end of July. The Comptroller & Auditor General is responsible for laying the Accounts, which will be published by HMSO as a Parliamentary document. Responsibility for laying the Report, which will be published by the Board as a non-Parliamentary paper, rests with this Administration.

Provided no last minute problems arise, the Comptroller & Auditor General proposes to lay the Accounts on Tuesday, 24 July. We propose to lay the Report on the same day and to arrange for the House of Commons to be informed by means of a Question for written answer on that day. The Answer will indicate that copies of the published Report and Accounts will be placed in the libraries of both Houses as soon as they are available. The timetable for presenting and publishing the Accounts is in the hands of HMSO; it is hoped that publication will be possible on or about 31 July but it will not be possible to confirm this until nearer the time. The Board would publish the Report on the same day but it is not expected that any publicity will be given to it.

I should be grateful to learn whether you see any objection to our laying the Report on 24 July.

I am copying this letter to Murdo MacLean (Chief Whip's Office), Miss Lewis-Jones (Lord President's Office), Anthony Cary (FCO), A G R Butler (FCO Parliamentary Unit), John Salveson (Treasury) and Don Mackenzie (NAO).

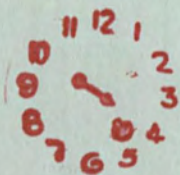
*Yours sincerely*

*Nan Andrew*

(Miss N Andrew)  
Parliamentary Clerk



4 JUL 1984



UNITED STATES DEPARTMENT OF JUSTICE  
FEDERAL BUREAU OF INVESTIGATION  
WASHINGTON, D.C. 20535







OVERSEAS DEVELOPMENT ADMINISTRATION  
ELAND HOUSE  
STAG PLACE LONDON SW1E 5DH  
Telephone 01-213 5409

CF pa  
Miss Stevens  
OK  
JA

From the Minister

22 May 1984

T Flesher Esq  
Prime Minister's Office  
10 Downing Street  
London SW1

Dear Mr. Flesher,

CROWN AGENTS FOR OVERSEAS GOVERNMENTS AND ADMINISTRATIONS:  
ANNUAL REPORT AND ACCOUNTS 1983

In my letter of 3 May I said that the Crown Agents were proposing to publish their 1983 Report on 23 May and you later confirmed by telephone that this was acceptable.

Unfortunately printing difficulties have unexpectedly arisen and, as a result, it will not be possible to publish on 23 May. The Crown Agents now propose to publish their report on Wednesday, 6 June and their Chairman plans to hold a press briefing at 11.45 am on that day. We therefore propose that the Report be laid before Parliament on 5 June and that the House of Commons be informed of its publication by a Question for Written Answer the following day. I am sorry that this change is necessary and should be grateful if you would let me know if you have any objection to the revised proposals.

I am copying this letter to Murdo MacLean (Chief Whip's Office), Miss Lewis-Jones (Lord President's Office), Anthony Cary (FCO), P Johnson (FCO Parliamentary Unit) and John Salveson (Treasury).

Yours sincerely  
Nan Andrew

Miss A Andrew  
Private Secretary



GOVT. MACH: Future of Crown Agents June 79.



62 - Mach. 1979



OFFICE OF THE SECRETARY OF STATE  
PARLIAMENTS HOUSE  
11, BRISTOL PLACE, LONDON, W1A 1AA  
Telephone 01-275 3700





OVERSEAS DEVELOPMENT ADMINISTRATION  
ELAND HOUSE  
STAG PLACE LONDON SW1E 5DH  
Telephone 01-213 5409

CF pa

Miss Stevens

Pse  
Caroline Jones  
is OK

At  
3/5

From the Minister

3 May 1984

T Flesher Esq  
Prime Minister's Office  
10 Downing Street  
London SW1

Dear Sir,

CROWN AGENTS FOR OVERSEAS GOVERNMENTS AND ADMINISTRATIONS: ANNUAL REPORT AND ACCOUNTS 1983

The Crown Agents' Annual Report and Accounts are to be published as a non-Parliamentary paper. There is a statutory requirement that the Report be laid before Parliament.

The Crown Agents would like to publish the 1983 Report on Wednesday 23 May and their Chairman, Mr Peter Graham, plans to hold a press conference at 11.45 am on that day. We therefore propose that the Report be laid before Parliament on 23 May and that, as in previous years, the House of Commons be informed of its publication by a Question for Written Answer on the same day. I should be grateful if you would let me know whether you have any objection to these proposals.

I am copying this letter to Murdo MacLean (Chief Whip's Office), Miss Lewis-Jones (Lord President's Office), A Cary (FCO), P Johnson (FCO Parliamentary Unit) and John Salvesson (Treasury).

Yours sincerely

N. Andrew

Miss N. Andrew





Prime Minister

Content?

AT 22/2

Yes not

OVERSEAS DEVELOPMENT ADMINISTRATION

ELAND HOUSE

STAG PLACE LONDON SW1E 5DH

Telephone 01-213 5409

From the Minister

22 February 1984

Tim Flesher Esq  
10 Downing Street  
Whitehall  
LONDON SW1

Mr. Flesher.

ODA  
inform of Pres  
approval by phone  
AT 23/2

A.S.C. 23/2

Dear Tim,

CROWN AGENTS : STATEMENT TO THE HOUSE OF COMMONS

As we discussed earlier today and following the discussion in OD, Mr Raison wishes to announce the Government's decision on the future of the Crown Agents to Parliament as soon as possible in order to avoid the news being leaked.

He would like, therefore, to make a Statement to the House of Commons tomorrow afternoon, Thursday 23 February, and thinks the Statement should also be offered to the Opposition in the House of Lords.

... I attach a draft of his proposed statement.

I am copying this to the Private Secretaries to the Lord Privy Seal (Mr Heyhoe), the Chief Whip (Mr MacLean), the Chief Whip, Lords (Mr A Dyer), the Lord President (Miss J Lewis-Jones), the Secretary of State for Foreign and Commonwealth Affairs (Mr Ricketts), the Secretary of the Cabinet (Mr Hatfield), the Baroness Young (Mr Eldon) and to the Chief Press Secretary (Mr Ingham).

Sincerely,

Michael C McCulloch

(Michael C McCulloch)  
Private Secretary





## DRAFT STATEMENT ON CROWN AGENTS

## REORGANISATION WITH A VIEW TO PRIVATISATION

Mr Speaker, with permission I should like to make a Statement on the future of the Crown Agents.

Last summer the Government of Brunei terminated its contract with the Crown Agents for Oversea Governments and Administrations for the management of its investments. This resulted in significant loss of income to the Crown Agents, amounting to up to £4 million in a full year, so that action became necessary to enable them to meet their financial duties under the Crown Agents Act 1979.

The Board of Crown Agents accordingly submitted to Government proposals for reorganisation and improvement of the efficiency of the business, designed to enable them to achieve financial viability not later than 1986. Those proposals included the reduction of staff from about 1,200 to under 900, changes in terms of service to enable them to provide services competitively, and the sale of their principal offices at 4 Millbank, which would make possible the reduction of the commencing capital debt from its current level of £19.8 million to £9 million.

The Government has taken the opportunity to undertake a thorough review of the future of the Crown Agents and the need for their continued existence in their present form. In undertaking this, we have had regard to the Government's policy to reduce the size of the public sector, to the services which the Crown Agents provide for developing countries and to their value to Britain's own interests.

On the basis of this review I expect Crown Agents to be fully profitable by not later than 1986.

/After very careful





After very careful consideration of this and other factors and of the representations made to me, we have decided broadly to endorse the proposals of the Board of Crown Agents for their reorganisation with a view to their privatisation in due course. The timing and method of privatisation will be settled later. Pending the necessary legislation, the Board will set in train appropriate measures of internal reorganisation in order to facilitate privatisation.

To facilitate the financing of this reorganisation, it is the Government's intention to waive in full under Section 17(4) of the Crown Agents Act 1979 the interest due on the commencing capital debt in 1984 and to seek Parliamentary approval under Section 17(10) for any waiver necessary in 1985 and 1986.

I believe that this decision will enable the Crown Agents, under their vigorous Chairman, Mr Peter Graham, to continue to serve successfully both Britain and the developing world.





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B.06977

PRIME MINISTER

c Sir Robert Armstrong

Future of the Crown Agents  
(OD(84) 5)

BACKGROUND

FLAG A

1. The Committee previously considered the future of the Crown Agents on 16 December 1983 (OD(83) 9th Meeting). At that meeting the Foreign and Commonwealth Secretary proposed that the Crown Agents should continue in being as a public corporation with an extensive reorganisation and capital reconstruction programme aimed at improving efficiency. Privatisation in the sense of selling off was not considered to be an option for the Crown Agents in their present financial circumstances and closure was the alternative offered. The view taken by the Committee was that many of the Crown Agents' tasks were not appropriate to the public sector and that, if there were serious doubts about the ability of the Crown Agents under new management to achieve financial viability by 1986, it would be better to close them down at once rather than face the prospect of closure later. The Foreign and Commonwealth Secretary was accordingly invited, in consultation with the Chancellor of the Exchequer and other Ministerial colleagues, to bring forward a paper covering the full implications of a possible closure. It was also agreed at the meeting that Government Departments should not be required to accept on transfer certificated Crown Agents staff who would otherwise be redundant.

FLAG B

2. In his Memorandum (OD(84)5), the Foreign and Commonwealth Secretary, in addition to answering the OD remit of setting out the full implications of closure, has brought





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forward alternative proposals for reorganising the Crown Agents with a view to privatisation, with a final decision on the timing and modalities of privatisation to be taken later. These alternative proposals are based on advice from the Merchant Bankers, Morgan Grenfell.

3. While closure (involving the parcelling out of certain key functions) offers a quicker and more certain solution, it has serious disadvantages:

(a) the need for complex and controversial legislation for which no place has been found in the 1984-85 legislation programme;

(b) the addition of at least 200 more civil servants following the transfer of aid administration tasks to the Overseas Development Administration;

(c) the taking of the Crown Agents' procurement and related functions more closely into central Government by amalgamating these activities with those of Crown Suppliers, which is operated as a trading fund within the Department of the Environment. (The creation of a more overtly Governmental organisation for this purpose would be against the main stream of Government policy and might also discourage custom.)

4. The alternative proposals for reorganising the Crown Agents with a view to privatisation have been developed in the light of Morgan Grenfell's advice that there is a reasonable prospect of successful privatisation in the sense of establishing a majority holding by private investors in 1986 with eventual achievement of complete divestment depending on the strength which the private sector partners were able to contribute. Furthermore, Morgan Grenfell consider that the Crown Agents' short-term forecasts of income for 1984 are soundly based and achievable and that the longer-term (1985-86) forecasts have been prepared on a reasonable basis. The Foreign and Commonwealth Secretary favours this solution.





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5. Morgan Grenfell have, however, indicated in relation to the proposed privatisation that:

(a) the achievement of longer-term forecasts of costs would require a high degree of drive and determination from management and the continuing full support of the new Chairman. Present cost-cutting proposals are considered if anything to be insufficiently radical;

(b) a minority HMG shareholding would be necessary until the Crown Agents were sufficiently well established to cope with the adverse reaction which, in the Merchant Bankers' view, privatisation would be likely to provoke now from a number of customers. It was not possible for Morgan Grenfell to be specific about how long it would take HMG to divest itself entirely of its holding;

(c) the index-linked pension arrangements for Crown Agents staff would be a disadvantage but not an insuperable bar to privatisation and the adoption of a less rigid scheme would be desirable.

6. The figures in Annex C of the paper show that, if pensions remain funded, the differences between the three options of privatisation, reorganisation as a public corporation and breakup are small in public expenditure terms. For the reasons explained in paragraph 14 of the paper it has not been possible to produce an agreed comparison of costs on the alternative basis of HMG realising the Crown Agents pension investments, currently worth £70m., and meeting pension obligations on a pay-as-you-earn basis. Total closure would be more costly since it would involve a greater net write-off of Commencing Capital Debt and a short-term need for funds to finance redundancies, pending the sale of assets.





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7. The Chancellor of the Duchy of Lancaster is unable to attend because he is leading in a Debate in the House of Lords. The Secretary of State for Defence will be in Chesterfield at the time of the meeting and will be represented by the Minister of State for the Armed Forces (Mr Stanley). The Secretary of State for Trade and Industry has a prior engagement with a senior French Minister and will be represented by the Minister of State (Mr Lamont). The Secretary of State for the Environment, the Secretary of State for Scotland, who has an interest in some employees of the Crown Agents, the Minister of State, Privy Council Office and the Minister for Overseas Development have been invited to attend.

#### HANDLING

8. You will wish to invite the Foreign and Commonwealth Secretary to introduce the paper. You will also wish to invite the Chancellor of the Exchequer to comment. Issues which should be brought out in discussion are:

(a) Does the advice from Morgan Grenfell give adequate assurance that the privatisation proposals are viable? In particular, is there sufficient confidence in the new Chairman and the ability of his management team to produce the drive and determination needed to make a success of such a reorganisation in the longer term?

(b) Is there a real risk that the Crown Agents' performance will not be attractive enough to achieve a majority private shareholding by 1986 with the accompanying prospect that the case for closure might have to be reviewed again in 2-3 years' time when the proposed legislation would be particularly unattractive?

(c) How dependent is the viability of the scheme on the co-operation of the trade unions in facilitating the proposed move to Sutton and the changes of conditions of service involved?





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(d) Can a firm plan be developed now for privatisation with target dates being set for initial flotation and a full divestment of HMG's holding with clear financial targets for the Crown Agents to achieve?

CONCLUSION

9. Subject to the discussion you might guide the Committee to agree that:

(a) in accordance with the Foreign and Commonwealth Secretary's recommendation, a decision should be taken in favour of reorganising the Crown Agents on the lines proposed with a view to privatisation;

(b) the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer should draw up a firm plan for privatisation, including target dates for initial flotation and eventual full divestment, with clear financial targets for the Crown Agents to achieve;

(c) in announcing this decision, Ministers should make it clear that the Board of Crown Agents accept that their long-term future depends on their ability to achieve financial success.

*David Goodall*

A D S Goodall

21 February 1984



CONFIDENTIAL

21 February 1984  
Policy Unit

E.R.  
PRIME MINISTER

CROWN AGENTS

The Foreign Secretary has set out two possible courses of action. His preferred course, to reorganise and to await privatisation, is more hazardous than his note implies, whilst the relative costs have been rigged unfairly in favour of holding on rather than breaking up the Crown Agents as it stands. This hinges on success being achieved where before we have witnessed failure: David Hobson and I are sceptical.

Break-Up

The paper alleges difficulties in pursuing this course. The legislation could be included in the 1984-85 Legislative Programme, which still contains a large number of marginal Bills. The recruitment of additional civil servants would be compensated for by a run-down in the staff at the Crown Agents who are currently entirely within the public sector. There would be more redundancies than with reorganisation, but this is merely a measure of the level of over-staffing in the organisation at the moment. The Crown Agents' presence abroad in a wide variety of functions is overstated: the bulk of their overseas work is procurement, as the numbers make clear.

The paper is less satisfactory when considering the future of each individual part of the Crown Agents' activities. We suggest the best treatment below:

1. Procurement. The best thing would be to leave this as a separate business in a limited company (Crown Agents Limited) under the ODA, not Crown Suppliers, with a view to potential privatisation in due course.
2. Inspection and quality assurance. This could be put with the procurement function.
3. Price certification. The potential contract should be grouped with procurement or handed to the private sector.
4. Supply advisory and supply-related training services. This to be grouped with procurement.

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5. Investment management. This work to be handled by the private sector.
6. Engineering and project management. This work to be handled by the private sector or closed down. It is currently unprofitable.
7. Security printing stamps and coins. This work to be handled by the private sector: De La Rue and Bradbury & Wilkinson are world leaders anyway in this field.
8. General payment services. This should be taken over by the ODA.
9. Pension payment services. This should also be taken over by the ODA, in view of the £750,000 saving they estimate they could make by handling it themselves.
10. Recruitment. This could be done by the private sector or the ODA.

#### Privatisation

The Morgan Grenfell report is disappointing, and riddled with ifs and buts. Morgan's cannot guarantee the revenue forecast (even though it shows no growth) for the second and third years, which are the crucial years in the restoration of profit. Cost-cutting, as they suggest, is less vigorous than might be expected given the enormous cost base. The Brunei Contract shows just how vulnerable some of the business was, and there is nothing to prevent loss of further contracts occurring over the next 3 years. In a competitive international business like the Crown Agents, you have to pedal fast to stand still. Some of the possible benefits occurring in the P&L take place because they are predicting developments of new business activities which are uncertain and are forecast in ODA aid assisted territories. The report correctly illustrates the deficiencies of the current management, who have been responsible for many of the difficulties of recent years. They will have to recruit new managers to make any inroads into the cost problem, and for the aggressive new business drive which they do need if they are to succeed.

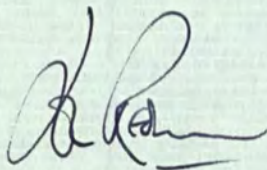
Morgan Grenfell undermine their own case by stressing that it would not be attractive to portfolio investors. This is code for saying that it may not be a free-standing competitive profitable business



in which people will naturally want to invest. Their idea of selling control of it in 2 years' time to a consortium of interested parties who are also involved in business with the Crown Agents in other ways, means that they are looking for people to buy the group who might buy it for other motives - perhaps to gain access to the word "crown" in the title. You should be suspicious of this approach. The whole Morgan Grenfell review reads like a paper assembled as a brief to privatise and salvage the whole, in which they themselves have little confidence or belief. The Government will remain on risk for a long time.

Conclusion

ODA should recommend early legislation to wind up the Crown Agents. The legislation should take the necessary powers for transfer of pensions and general payment services to the ODA and for the separate establishment of the procurement functions. These should be sold as soon as possible to private shareholders or allowed to wither away. The rest should be closed. The Crown Agents have gone on for too long whilst the empire has withered.



JOHN REDWOOD



## JOINT COMMITTEE ON CONSOLIDATION, &amp;C., BILLS

*Ordered,*

That Mr. John Morris be discharged from the Joint Committee on Consolidation, &C., Bills and that Mr. Robert Litherland be added to the Committee.—[*Mr. Donald Thompson.*]

**Crown Agents**

*Motion made, and Question proposed,* That this House do now adjourn.—[*Mr. Donald Thompson.*]

10 pm

**Mr. Guy Barnett** (Greenwich): I am grateful for the opportunity to raise the Crown Agents as a subject for debate on the Adjournment. The future of the Crown Agents has been a matter for speculation since the end, nearly a year ago, of the Brunei contract to manage the Sultan's investment portfolio. Indecision behind closed doors has characterised the Government's conduct ever since. Leaks in the press and rumours that abound point to interdepartmental conflict on the issue.

Last December the Minister for Overseas Development confirmed, as I suspected, that abolition was one of the options being considered, so the staff of the Crown Agents have reason to be anxious about their future. That is bound to have an adverse effect upon morale. In turn, deteriorating morale is in danger of reducing the effectiveness of the organisation, and eventually its reputation abroad upon which its business ultimately depends.

My first plea is that the Government should end the uncertainty and cease procrastinating. Over the past year I have had contacts with the Crown Agents and with members of the staff. Through them and in other ways I have learned a good deal about the value of the Crown Agents. I have developed a special regard for the dedication and sense of service that characterise the staff and a tradition that has been built up during the 150 years or so of the existence of the Crown Agents. Nevertheless, I hope to make it clear that the ideas I am putting forward are very much my own, based upon my observation in Britain and overseas.

The Crown Agents have earned a reputation for moral integrity, knowledge and expertise. Of course, over a period of 150 years mistakes have been made. But of what organisation can that not be said? Their mistakes have been of human error, not corruption or greed. Unquestionably, the reputation of the Crown Agents for incorruptibility and professionalism makes them unique in the sector in which they operate. I mean that. There is no other organisation like the Crown Agents in the world.

Interestingly, that reputation did not suffer abroad in the wake of the property and secondary banking scandals of the early 1970s. Three hundred institutions in over 100 developing countries still use the Crown Agents for most of their dealings. I use the word "still" because the Crown Agents are often spoken of as a legacy, a sort of hangover from the British Empire, a relic, obsolete in today's world. That decidedly is not true, and the proof is the £30 million worth of business that they did in 1982 in procurement, in large and minutely small indents, responding to an incredible variety of demands in engineering, where they have special expertise, and in fund management. That is by no means a complete list of what they do. Indeed, one observer remarked, "What do they not do?" I could not answer that question confidently, and the time available in this debate does not permit a fuller description of the work they do.

It is important to underline four points that show that the Crown Agents as constituted, are unique and valuable. First, their job is to serve their customers, or principals as they are called, in over 100 Third-world countries.



Falklands if they did not believe them to be safe. Nevertheless, I will give the hon. Gentleman a considered reply in writing.

I promise to draw the attention of my right hon. Friend the Leader of the House to the hon. Gentleman's observations about the need for a Select Committee on intelligence. I will also draw the attention of my right hon. Friend the Secretary of State for Defence to what was said in the letter to which the hon. Gentleman referred. With the greatest respect to the hon. Gentleman, however, I am not prepared to comment on GCHQ or the Belgrano. I hope that he will accept that.

The hon. Member for Kingston upon Hull, North referred to the balance between the Harrier and FEFA programmes. There is no clash. The FEFA project has a later time scale. The advanced Harrier—the GR5—will come in later this decade but FEFA will not be until the mid-1990s on the present programme. On the percentage of work on the GR5, I cannot really add to what my hon. Friend the Minister of State said in opening the debate—40 per cent. of the work on the aircraft and 75 per cent. of the engine work will be carried out by British industry although only 20 per cent. of the combined number of aircraft to be produced will be for the RAF.

Several hon. Members referred to the new trainer. As my hon. Friend the Minister of State said, a decision has yet to be taken whether to refurbish the Jet Provost or purchase a new trainer aircraft. It is likely to be taken in the next few months. Many manufacturers, British and foreign, have responded to our invitation on the AST 412. Their proposals are being carefully evaluated. We must take advantage of that competition, but I hope that at the least any new aircraft will be built in the United Kingdom. As it is such a competitive area, it would be unwise for me to go further.

The hon. Member for Sheffield, Attercliffe (Mr. Duffy) made an impressive speech. He gave me notice that he would not be able to stay for my wind-up speech. He referred to the Tornado stand-off missile. We are studying the possible advantages of introducing a conventionally armed long-range stand-off missile. As we said in last year's statement on the Defence Estimates, those missiles could make a significant contribution to raising the nuclear threshold, but we do not believe that they could replace nuclear weapons, which are essential for deterrence.

The hon. Gentleman also referred to how AMRAAM is ahead of ASRAAM. He wondered whether the ASRAAM programme was safe. The Tornado F2, with its excellent range and loiter capability, will enter service armed with Skyflash and Sidewinder missiles. In the early 1990s, we plan to replace them with a new generation of weapons—AMRAAM and ASRAAM, on which we are working with our American and German allies. We want them both. I am glad to hear the hon. Gentleman's support for those systems and the way in which the programme is being tackled.

The hon. Member for Inverness, Nairn and Lochaber referred to low flying. In 1979 low-flying arrangements over the United Kingdom were completely revised to make best use of air space for this vital training, and to avoid populated areas and, as far as possible, sensitive places such as hospitals. I am pleased that the level of complaints, in comparison with the number of low-flying exercises,

showed a drop under the new system, although the low-flying schedule was substantially increased. I also note what the hon. Gentleman said about the Tornado and its likely impact in that area.

My hon. Friend the Member for Dumfries referred to ATC development. The ATC is a most valuable youth service and a source of high-quality, well-motivated recruits for the RAF. As was announced to the House on 20 January, following the successful trial of admitting girls to membership, squadrons are being opened for a proportion of girls, as resources permit. We keep very much in mind the need to give them interesting and exciting training.

My hon. Friend also paid a generous tribute, in which I am sure the House would like to join, to our search and rescue services in the RAF. The RAF is required by international convention and agreement to provide a civil, maritime and aviation search and rescue organisation. In support of that commitment, and acting on behalf of the Department of Transport, helicopters of the Royal Navy and the RAF, together when necessary with RAF Nimrod maritime patrol aircraft and RAF mountain rescue teams, operate a permanent standby service for search and rescue. Units dedicated to search and rescue are situated throughout the United Kingdom, and there are two continuously manned rescue co-ordination centres at Edinburgh and Plymouth.

It is a great privilege for me to wind up this annual debate on the RAF. In a democracy such as ours, there quite rightly is debate as to how much should be spent on defence, how it should be allocated to the three services and, within each service, the priorities for that spend. Some of that debate has taken place today.

However, what cannot be in doubt when we talk of the RAF is the quality of its equipment and the sheer professionalism and courage of our service men; we saw that in battle in the Falklands. We see it, for example in outstanding rescue feats by our helicopter crews and in our pioneering mid-air refuelling techniques.

At the Ministry of Defence I occupy the office which was formerly that of the Secretary of State for Air, when we had a separate Air Ministry. On my outer office wall there is a signed letter from George VI to the then Secretary of State for Air dated 1 April 1943, on the 25 anniversary of the RAF. The letter says:

"But its prime cause, beyond question, is the spirit which inspires each and every member of the force—the spirit that attains the stars, however hard the way may be".

That is as true and relevant today as it was then.

*It being Ten o'clock, the motion for the Adjournment of the House lapsed, without Question put.*

#### EUROPEAN LEGISLATION

*Ordered,*

That Mr. Kenneth Carlisle and Mr. Iain Mills be discharged from the Select Committee on European Legislation and that Mr. Michael Knowles and Mr. Nicholas Soames be added to the Committee.—[Mr. Donald Thompson.]

#### STATUTORY INSTRUMENTS (JOINT COMMITTEE)

*Ordered,*

That Mr. David Bevan and Mr. Alec Woodall be discharged from the Joint Committee on Statutory Instruments and that Mr. Stuart Bell and Mr. David Sumberg be added to the Committee.—[Mr. Donald Thompson.]



Secondly, as a result they create an immense amount of goodwill for Britain in those countries because of their honest dealing and scrupulous representation of the interests of their principals.

Thirdly, as a by-product, they provide practical service to British industries and services, especially to small firms. It is no wonder that the Director General of the Confederation of British Industry, Sir Terence Beckett, gave CBI backing to the Crown Agents—and that backing came from the CBI midlands region where many small firms are based.

Lastly, a point that most people have missed is that the Crown Agents, by handling contracts on behalf of the Overseas Development Administration and multilateral donors, raise the value of the aid given by ensuring the best price, the appropriateness of the goods bought, and inspection of equipment to ensure its proper and efficient working.

In the light of that, what are the arguments for change from the current position of the Crown Agents operating as a public body? What are their arguments for privatisation of one sort or another or for outright abolition? I regret that those are the options that the Government appear to be considering.

Some people's judgment may be guided by the disastrous record of investment in property speculation and secondary banking in the early 1970s. The answer to that was given by Mr. Peter Graham, the senior agent, who was quoted as saying:

"Anyone who wants to abolish us because in 1974 we got our nose rubbed in the dirt should have spoken up then, not now. Since then the Crown Agents has been completely reconstructed and has rebuilt the confidence of its customers."

I recall that many privately-owned institutions did not exactly distinguish themselves during that period, so anyone who values the work of the Crown Agents and thinks that they might be more useful in private hands has a difficult case to argue.

Another, more respectable, argument is that at that time the Crown Agents imposed a charge on the Exchequer and that the loss of the Brunei contract, plus the uncertainty that clouds the field in which they work—especially in the world's current economic impasse, for which the Government must bear some of the blame—may mean that there is a risk of the same thing happening again.

That risk is significantly small, for two reasons. First, the Crown Agents Act 1979 effectively prevents, if it were necessary, any recurrence of the events of the early 1970s. Secondly, the Crown Agents have proved their reliability by meeting the targets laid down by the Government in March 1982 when Sir Neil Marten was the responsible Minister.

The Crown Agents succeeded in doing that by anticipating many of the difficulties that they were bound to face. The organisation has been streamlined and new markets have been found. In a short space of time, under the guidance of the previous senior agent, Sir Sidney Eburne, the Crown Agents have become more sensitive and responsive to changing demands.

I cannot lay too much emphasis on the quality, expertise and sense of dedication of the staff that made those changes possible. Anyone who seriously believes that there is room for further slimming of the staff had better find out how much overtime is being worked to get through the work that must be done, and take cognisance of the quality of that work.

Nevertheless, there is an immediate issue in the shape of the ending of the Brunei contract, and it is only fair to admit that other issues may have to be faced. They are the inheritances of the past. The Crown Agents are conscious of the need to spread the risks that they take. But retention of the organisation will almost certainly require the rescheduling of debts—not unknown in the Third world—until it has established its business on a sounder basis. Indeed, it is fair to point out that the Brunei setback—in no sense the fault of the Crown Agents—has a great deal to do with the last days of the Imperial relationship.

I am afraid that the trouble with the examination currently being undertaken by Morgan Grenfell is that the Crown Agents may be judged by whether or not they can make profits. Accountants' rules may be applied by those who are ignorant of the organisation and its proper functions. As the permanent secretary at the ODA aptly put it, those functions are

"to minimise competition with the private sector"—  
and—

"to concentrate on areas where its reputation and experience enable it to make a distinctive contribution which may at the same time benefit British Trade."

We do not judge the success of the British Overseas Trade Board by the profit it makes, nor do we judge the success of the trade attachés in posts abroad by that criterion; and it would be almost as ludicrous to apply similar standards to the Crown Agents.

I turn to the options that seem to be under consideration. The first option is abolition. However, I think that we can throw that option straight out of the window. It would be to ignore completely the cost-benefit arguments that I have mentioned. No one can measure the goodwill that Britain earns through the Crown Agents' work, the value in terms of the effectiveness of aid, or the continuing commercial, professional and other links that we enjoy. In addition, British industry, especially small firms, would lose a great deal of valuable business.

The second option, which I think must also be rejected, and which I assume is not up for consideration, is that some of the functions should be subsumed by the ODA. The reason for rejecting that option is that the Crown Agents are respected and trusted as independent and impartial by overseas Governments and institutions that use their services. That stamp of impartiality and independence would be lost by taking such a step. Moreover, most of the valuable business that the Crown Agents have built up with the multilateral agencies would also be lost.

The third option, of course, is some form of privatisation. A parliamentary answer yesterday suggests that that is the favoured option. I have to tell the Minister that the more I get to know of the work of the Crown Agents, the more I am convinced that that would be a disastrous course for the Government to take. I know of no way in which the Crown Agents could be partially or wholly privatised, without them losing the special reputation that they enjoy.

It is remarkable that, after countries became independent in the past two or three decades, so many decided to use the services of the Crown Agents. The reason is that they are the only quasi-governmental organisation in the world that exists to act impartially on behalf of any Third-world Government, and to represent them in any area of development where they need help.



[Mr. Guy Barnett]

The integrity of the Crown Agents is famous. It is based on a tradition of disinterested service to its principals. The anniversary publication, 1833 to 1983, says:

"The tradition of adjudication on public tender and never by private bid became an established part of each country's development. It was this characteristic that gave the Crown Agents—and still does—their stature in the development world."

In effect, the Crown Agents operate as an international civil service, observing standards that are traditional to the British Civil Service. That is why they obtain the business that they do. If they were to operate as a private agency, or as an agency in which private interests were represented by shareholders, that reputation for impartiality would go. Inevitably, companies with large interests in the developing world would see an advantage in possessing a stake in the organisation, with the perfectly legitimate objective of seeking business for themselves. That might be acceptable in business ethics, but it would ruin the special standing that the Crown Agents enjoy among their principals.

Moreover, as a commercial procurement agency, they would be required by their shareholders to make profits for them; and that requirement would change the nature of the relationship that they currently have with their principals. If they ceased to be unique in the type of service that they provide, they would lose much of the business they now have, and independent Governments would be forced to set up their own procurement agencies. As a result, British firms would cease to enjoy the special advantage they now have in obtaining business in the developing world. In addition, much of the goodwill that we in Britain gain as a result of the Crown Agents' work would be dissipated.

I have raised this issue because I am afraid that the Government may be about to embark on a disastrous and ill-considered course. I believe that the Crown Agents have an important future as a publicly-run agency. If there has been a fault, it has been on the part of the House and of successive Governments who have failed to give any clear political direction during the period when the Empire has been evolving into the Commonwealth.

There is still time for a proper examination of the future of the Crown Agents. First, the relevant Select Committee could undertake an inquiry. A year ago, it produced an excellent report on the Commonwealth Development Corporation. The Committee could do the House a service by providing a similar report on the Crown Agents.

Secondly, there needs to be thorough consultation of the interests of the principals, who, after all, provide the business. That should be done through ambassadors and high commissioners, and through Government-to-Government contact. I believe that the Commonwealth Secretariat would be glad to assist.

In my view, no solution will be acceptable unless it is based on meaningful consultation with the staff. Members of staff speak with special knowledge of their own relationship with those with whom they deal. They are the guardians of a valuable and perhaps extraordinary tradition, inherited by this country from the past, which must not be thoughtlessly thrown away. If it is thrown away, many members of the staff will simply leave, taking their expertise with them. They have no desire to see all that the Crown Agents have stood for being prostituted to other purposes.

I very much hope, Mr. Deputy Speaker, that my hon. Friend the Member for Vauxhall (Mr. Holland) will have an opportunity to speak in the debate.

**Mr. Deputy Speaker (Mr. Paul Dean):** Order. In view of what the hon. Gentleman has said, I shall call the hon. Member for Vauxhall (Mr. Holland) to make a brief speech.

10.17 pm

**Mr. Stuart Holland (Vauxhall):** I am sure that hon. Members will wish to give credit to my right hon. Friend the Member for Clydesdale (Dame J. Hart) who faced the consequences of the Crown Agents' involvement in the property market as soon as she became Minister for Overseas Development for the second time in 1974. I had the privilege of advising her at that time, and I know that she undertook a thorough review of their operations then, restructured them, and rendered them accountable to Parliament.

Since then, as my hon. Friend the Member for Greenwich, (Mr. Barnett) has just stressed—and I endorse his arguments—the Crown Agents have had an excellent, if not unique, record in serving both Commonwealth Governments and development prospects around the world.

It is clear that the Crown Agents did not lose the Brunei contract through inefficiency. They had a consistently higher rate of return on their operations—with one brief exception in favour of James Capel—than any other company. I include Morgan Grenfell, which is now crawling over them like undertakers, apparently preparatory to privatisation.

The key question has not yet been fully addressed. Why, with that successful record, did the Crown Agents have the Brunei contract knocked from under them? The answer lies with facts that should be placed before the House. In 1982, the present Government threatened to withdraw the Gurkha battalions at the disposal of the Sultan. It is apparent that the Government, seeking to prop up their venture garrison in the Falklands, persuaded the Sultan that he could be undefended by withdrawal of the Gurkhas. Discussion on the matter was so acerbic that the Foreign Office commissioner withdrew from Brunei and returned to London. Another Foreign Office official was sent out quickly to smooth the waters. Meanwhile, the Crown Agents appear to have been the only stick which the Sultan had at his disposal with which to hit back at the Government for the threatened withdrawal of the Gurkhas.

I am sure that the Minister will wish to answer the following questions. First, when did the discussions on withdrawal of the Gurkhas begin, and when did they break down? Secondly, did the Sultan or his officials—directly or indirectly—suggest that the Crown Agents' contract could be in jeopardy if the Gurkhas were withdrawn? Thirdly, did Her Majesty's commissioner walk out, or was he returned home although it was known that the future of the contract with the Crown Agents was in question? Fourthly, was there a conscious decision by the Government that the interest of the Falkland islanders were paramount relative to the future of both the Brunei contract and the Crown Agents?

It appears that the Crown Agents are paying the price for the Government's neglect of political guns, and that the decision to wind them down or privatise them is not only



political and ideological but a reaction to the loss of a contract, although the failure was the Governments rather than the Crown Agents'.

10.19 pm

**The Under-Secretary of State for Foreign and Commonwealth Affairs (Mr. Ray Whitney):** I am pleased to have the opportunity to reply to the hon. Member for Greenwich (Mr. Barnett) in the absence of my right hon. Friend the Minister for Overseas Development who is in Uganda or Zambia, I am not sure which at the moment.

The hon. Member raised an issue of considerable importance to Britain's relationships with the developing world. It is one to which he has paid long and dedicated attention, as I recognise. It is also an issue which is important politically, developmentally and commercially. It is a subject to which the Government are giving serious consideration, but no decision in principle or substance has yet been taken. I can convey no fresh news. I regret that the Government's consideration of the matter is taking longer than we had hoped, but because the Crown Agents' activities are so wide ranging and, as the hon. Member for Greenwich and for Vauxhall (Mr. Holland) have recognised, delicate and complex, it is right that the Government should examine them with the greatest possible care.

I should like to make it clear that the events of the late '60s and early '70s, which formed the subject of the Fay report in 1977 and of the Crown Agents tribunal which reported in 1982, are not relevant to the Crown Agents as they are today. The hon. Member for Greenwich and I are at one on that point.

Since 1975 the Crown Agents have confined themselves to performing their traditional role of providing services to overseas Governments and Administrations as well as to the Overseas Development Administration in the administration of our bilateral aid programme. The constitution and role of the Crown Agents and their relationship with the Government were defined and regulated by the Crown Agents Act 1979. The disengagement of the Crown Agents from the own-account activities in property and secondary banking, which were the subject of those reports, became, under the 1979 Act, the responsibility of the separate Crown Agents Holding and Realisation Board, whose work is now largely complete.

Since its incorporation on 1 January 1980 under the 1979 Act, the Crown Agents have substantially overhauled and improved their organisation and structure, and have their efficiency under a keen and commercially-minded board, comprised largely of business men, under the chairmanship of Sir Sidney Eburne and, since last October, of Mr. Peter Graham, formerly chief executive of Standard Chartered Bank. Staff numbers have been reduced from some 2,100 at the beginning of 1980 to about 1,170 now.

Under the 1979 Act, the Crown Agents assumed a capital debt to the Government of £30 million, since reduced to £19.5 million, largely through the sales of office property released by staff economies. The Act enabled Ministers to permit the Crown Agents to progress gradually over a six-year period to full servicing of that debt. They were required to service the debt at 20 per cent. of that figure in 1980 and 1981, 40 per cent. in 1982, 60 per cent. in 1983, and they are on course to achieve full servicing in 1985 as the Act required.

The Act also enabled Ministers to set financial targets for the Crown Agents and these were announced in the House on 26 March 1982 and covered the years 1982 to 1985. For the years 1982 to 1984, taken together, the rate of return was at a current cost operating surplus—I am sorry that these are fairly technical details—before the interest payable on the commencing capital debt of 0.5 per cent. of gross income over those years. For 1985 the target must be a surplus, similarly defined, of 6 per cent. of gross income, and within those targets the Crown Agents should seek to achieve an increase of 2.5 per cent. per annum in real and gross income per head of staff employed.

Soon after the announcement of those targets, in July last, the Government of Brunei terminated its agreement with the Crown Agents for the management of some £4 billion of Brunei's investments, and the hon. Members for Greenwich and for Vauxhall (Mr. Holland) referred to that. It is only fair to say that the Brunei authorities assured the Crown Agents that this action was not taken because of dissatisfaction with the Crown Agents' performance, but because they thought it appropriate that, with the coming of independence this year, the management of these investments should be taken over by the Brunei investment advisory board, to be set up locally for the purpose.

The hon. Member for Vauxhall, who is renowned in the House for a certain enthusiasm for various aspects of the Falkland Islands issue, raised a number of other, if I may so call them, speculative suggestions about the reasons for the Brunei Government's decision. I cannot add to the knowledge of the House so as to shed light on the aspersions cast by the hon. Gentleman. I shall be happy to write to him in detail about the allegations that he made. I should find it surprising if the slant and spin that he put on that ball turned out to be the case, but I shall write to him on the subject.

The business of managing Brunei's investments had grown substantially in recent years to a point where, in 1982, it had provided about £3.5 million of the Crown Agents' total annual income, which was about £32 million. The Brunei income had therefore been important in enabling the Crown Agents to carry through a progressive reorganisation of their business in recent years, which they planned to continue. The sudden loss of this source of income would have placed the Crown Agents in a serious financial situation if corrective action was not taken.

After urgent and serious consideration, the board of Crown Agents submitted to the Government at the end of September proposals for the acceleration of the programme of change which was already in hand and for the financial restructuring of the business, with the object of achieving full financial viability by 1986.

The Government have been examining these proposals with great care, since before we could accept them we would need to be satisfied not only that the measures of reorganisation which the Crown Agents envisaged would be feasible in themselves but that, together with the current and likely future state of the world economy, particularly as it affects developing countries, they would carry the clear prospect of financial viability being achieved.

Our consideration of the future of the Crown Agents must, of course, be more fundamental than that. We must ask ourselves what a body like the Crown Agents should do in the last years of the 20th century. In the first half of the century their role was clear and definite enough, but



[Mr. Ray Witney]

since the 1960s the Crown Agents have had to develop, as virtually all the dependencies have become independent, a new relationship with their principals. There has been great need for the Crown Agents to adjust to take account of the immense growth of the multilateral lending institutions.

We must also ask ourselves about the provision of services for the developing countries and for Britain, about the importance of assisting with the administration of the aid programme and about the important role of bringing business to British firms—a point raised by the hon. Member for Greenwich.

The Government fully recognise the need for an early decision, both for the Crown Agents as a body and for their staff, and the hon. Member for Greenwich referred to the problems and loyalty of the staff. I, too, pay tribute to

them. They have carried out their duties with remarkable efficiency and enthusiasm in circumstances of great and prolonged uncertainty, and this has been a period of considerable worry for them.

However, we are talking of important decisions, decisions which we must get right, and it would be imprudent for me tonight to promise to make a decision by a particular date. I can only say that the Government will take their decision as soon as they have carefully and fully weighed the various options that are provided, among others, by the Morgan Grenfell study, to which the hon. Member for Greenwich referred. It will be a wide-ranging study which will take account of all the aspects which have been raised in the debate and I hope that shortly it will be possible to bring to the House an announcement about those decisions.

*Question put and agreed to.*

*Adjourned accordingly at half past Ten o'clock.*



CONFIDENTIAL



2 MARSHAM STREET  
LONDON SW1P 3EB

01-212 3434

My ref:

Your ref:

N. B. J. N.

A. J. C. 207

50 January 1984

Dear Geddes,

Thank you for sending me a copy of your minute of 16 January 1984 to Nigel Lawson. I have now seen his reply of 23 January.

I am happy to agree with the suggestion that the Chairman of the Crown Agents should be authorised to tell overseas clients that the Crown Agents' procurement and price certification will continue at least for the present, to be undertaken by a public sector organisation.

As you know, one of the options being considered is that this work might come to The Crown Suppliers (formerly PSA Supplies) whose new corporate identity I launched at Lancaster House on 18 January 1984. I confirm that The Crown Suppliers could take this work on, providing of course that the necessary resources of staff and expertise were made available.

Having just given details of the new organisation I am sure you will appreciate that we would need to agree how this might best be presented if this option is eventually chosen. I am copying this letter to the Prime Minister, Nigel Lawson and Norman Tebbit.

Yours  
Patrick

PATRICK JENKIN



GOVT MARKET

Future of Comm Agers

June 79

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N. B. P. R.

A. J. C.  $\frac{24}{1}$

FOREIGN SECRETARY

Thank you for your minute of 16 January about the future of the Crown Agents.

2. I understand the difficulties which the continuing uncertainty must be causing for the Crown Agents' business abroad. Provided, therefore, that Patrick Jenkin accepts that Crown Suppliers would, if necessary, take this work on, I am content that the Chairman should be given authority to tell clients abroad that procurement and price certification functions will, at least for the time being, continue within the public sector.

3. Copies of this minute go to the Prime Minister, Patrick Jenkin and Norman Tebbit.

A handwritten signature, possibly 'N.L.', in dark ink.

(N.L.)  
23 January 1984

CONFIDENTIAL



Govt. Machinery June 79  
future of Comm Agents

24 JAN 1981

12 1 2 3 4  
5 6 7 8 9  
10 11





CONFIDENTIAL

Prime Minister

To note x in particular.

FCS/84/11

A-J.C. 17.

CHANCELLOR OF THE EXCHEQUER

The Future of the Crown Agents

1. I have delayed bringing this matter back to OD Committee, following our discussion on 15 December, because I thought we should take a closer look at the possibility of privatising the organisation as a whole. This is now being done, with the help of a merchant bank, as your officials know. It means that a decision will have to be delayed for some weeks, but I think we must explore this possibility before we come to a final decision.

2. Officials have also done more work on the closure option and particularly the idea you put forward of an amalgamation of the Crown Agents' procurement functions with PSA Supplies. If privatisation does not turn out to be a runner then this is a possible alternative.

3. I think it is now clear, therefore, that the options we face all involve the continuation of a procurement and price certification capacity initially, at least, in the public sector.

4. Meanwhile, the uncertainty creates difficulties for the Crown Agents' business abroad. But if we are agreed that the options are as I have indicated, I think we could authorise Mr Graham, the Chairman, to say to clients abroad, if necessary, that while the future of the Crown Agents is still being considered, the procurement business and the capacity to do price certification work will continue and that, initially, at least, this will be in an organisation in the public sector although privatisation may follow later. This may help him to secure and safeguard some contracts which are at risk.

x





CONFIDENTIAL

5. I should be glad to know whether you and Patrick Jenkin see any objection to this. I am also copying this minute to the Prime Minister and to Norman Tebbit.

A handwritten signature in black ink, consisting of stylized initials 'GH' followed by a small dot.

GEOFFREY HOWE

Foreign and Commonwealth Office

16 January 1984

CONFIDENTIAL



Ref: B06919

PRIME MINISTER

c Sir Robert Armstrong

The Future of the Crown Agents  
(OD(83) 13)

## BACKGROUND

The Crown Agents' loss of the Brunei investment management control has placed them in serious financial difficulty. The Board of Crown Agents have recommended a reorganisation over two years and a restructuring of capital. The alternative is closure. Privatisation in the sense of selling off the Crown Agents is not an option in their present financial circumstances.

2. The proposed reorganisation and capital reconstruction involves -

- a. reducing staff from 1,200 to 900;
- b. selling the Crown Agents' main asset, their Millbank office block, and relocating to Sutton;
- c. moving the staff who are still on Civil Service terms to more commercial terms of service;
- d. a Government indemnity or assurance to deal with the Crown Agents' technical short term insolvency;
- e. a Government waiver of interest due in 1984 on their commencing capital debt and, if necessary, in 1985 and 1986 also; a waiver for 1984 is within existing Ministerial powers but a waiver for 1985 and 1986 would require an affirmative resolution in the House of Commons;
- f. accepting surplus Crown Agents' staff into the Civil Service or making them redundant.

3. Closure would involve -

- a. transfer of aid administration tasks (and 200-260 staff) from the Crown Agents to the Overseas Development Administration;



- b. leaving the remaining business to be picked up by the private sector (not necessarily in the United Kingdom);
- c. primary legislation;
- d. international political consequences.

4. The Foreign and Commonwealth Secretary has not been able to persuade the Chancellor of the Exchequer in correspondence that the Crown Agents should be allowed to continue as a public sector organisation. (The Chancellor of the Exchequer minuted him on 8 December.) The Foreign and Commonwealth Secretary is seeking a very early decision since the uncertainty, fuelled by press speculation, is already having an effect on the Crown Agents' business and could jeopardise an important contract in Zimbabwe. The Secretary of State for the Environment wrote to the Chancellor of the Exchequer on 8 December to suggest that the transfer of at least part of the Crown Agents' purchasing function to PSA Supplies might be considered.

FLAG A

FLAG B

5. The Secretary of State for the Environment, the Minister for Overseas Development and the Minister of State, Management and Personnel Office and the Chief Whip have been invited for this item.

HANDLING

6. You will wish to invite the Foreign and Commonwealth Secretary to introduce his paper. You will also wish to invite the Chancellor of the Exchequer to comment. The main issues to be brought out in discussion are -

- a. do the Crown Agents have a good prospects of achieving financial viability? How realistic are their own forecasts? How dependent is viability on the co-operation of the trade unions in facilitating the move to Sutton and the worsening of conditions of service? And if it is not possible to be confident, as the Foreign and Commonwealth Secretary himself recognises, that the Crown Agents will be able to achieve financial viability by 1986, is it better to bite the bullet now and close them down?



b. what benefits do they bring to Britain in terms of our relations with certain overseas countries (mainly the smaller members of the Commonwealth) and to British exports? The Secretary of State for Trade and Industry will wish to comment on the latter point;

c. are their functions proper to the public sector or could they be carried out effectively by the private sector? (It should be noted that transfer of purchasing functions to PSA Supplies - another public sector body - could be inconsistent with any idea of privatisation: PSA Supplies is a Civil Service organisation which lacks expertise in the area of supplying overseas governments.)

Other issues are -

d. the Parliamentary dimension: opinion among Conservative back-benchers appears to be divided. The Lord Privy Seal and the Chief Whip should be asked to advise, particularly on the likely opposition to the primary legislation needed to effect closure, and its implications for the parliamentary timetable;

e. the future of certificated (ie ex-Civil Service) Crown Agents' staff, on which the Minister of State, Management and Personnel Office (Lord Gowrie) should be invited to comment. These are the staff who were in post before 1980 when the Crown Agents were incorporated by statute, following their earlier financial collapse through their involvement in secondary banking activities. The issue here is whether Government Departments should be compelled to accept surplus staff or whether the existing arrangements for voluntary transfer should continue, with any balance being made redundant. (The quality of the Crown Agents' staff is widely believed to be uneven.)

*Gov Gowrie*



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CONCLUSION

7. Subject to the discussion, you might guide the Committee to agree that -

i. the Crown Agents should continue but should be reorganised broadly on the lines proposed by the Board;

ii. the Government should waive interest on their commencing capital debt in 1984 and should introduce a resolution in the House of Commons seeking approval for a waiver in 1985 and 1986;

iii. the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer should agree on the new financial targets which the Crown Agents should be set;

iv. Government Departments should not be compelled to accept on transfer certificated Crown Agents' staff who would otherwise be redundant but that every effort should be made to absorb such staff through the existing arrangements;

v. in announcing these decisions, Ministers should make it clear that the Board of Crown Agents accept that their long term future depends on their ability to achieve financial success.

8. If, however, the consensus in the Committee is that the Crown Agents should be closed down, the Foreign and Commonwealth Secretary should be invited, in consultation with the Chancellor of the Exchequer and the Secretary of State for the Environment, to consider the possible transfer of purchasing functions to the Property Services Agency, or to companies in the private sector.

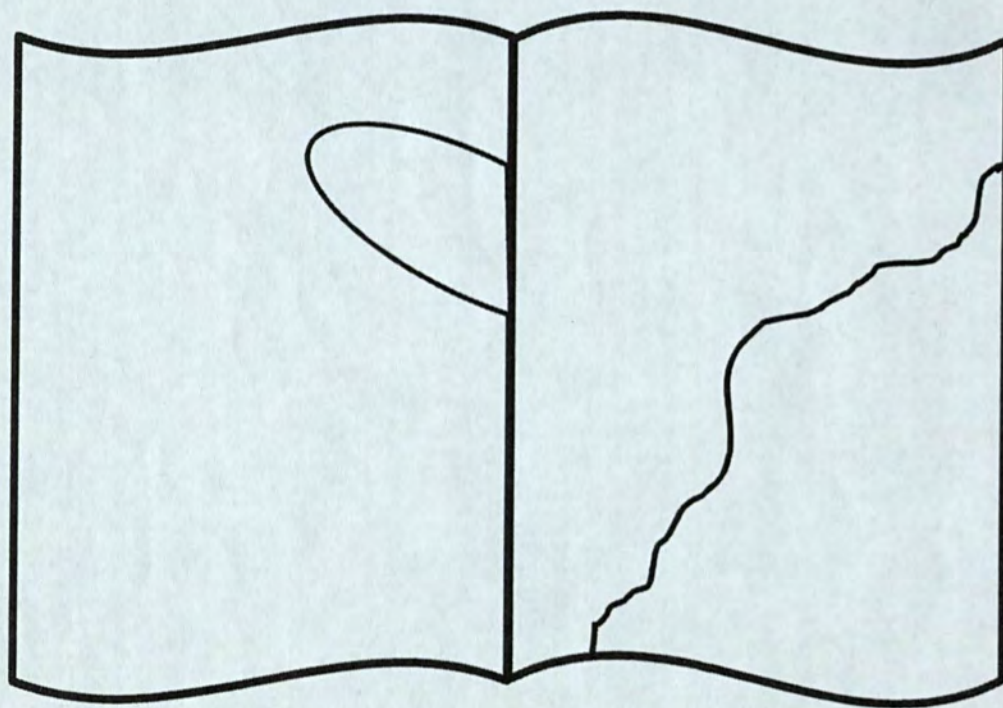
*David Goodall*

13 December 1983

A D S GOODALL



# **SPECIAL NOTICE**



**DAMAGED TEXT - INCOMPLETE IMAGE**



CONFIDENTIAL

B

3



2 MARSHAM STREET  
LONDON SW1P 3EB

01-212 3434

My ref:

17245

Your ref:

8 December 1983

Dear Chancellor of the Exchequer

You sent me a copy of your minute of 28 November to the Foreign and Commonwealth Secretary about the future of the Crown Agents.

I am not really in a position to comment on the desirability of your main recommendation, but if it is decided to go for closure I do think it would be well worth considering transferring at least part of the Crown Agents' purchasing function to PSA Supplies. You may recall that PSA Supplies has, with my agreement, recently adopted a more vigorous marketing strategy designed to increase the volume of its business in the public sector and so secure the maximum advantages of centralised buying. They are also required to use their position to help British industry and over 95% of their purchases are from British firms.

PSA Supplies do not at present do much business abroad apart from their work for our Embassies and official residences throughout the world and for the British forces in Germany. But a significant extension of their present geographical areas of operation for furniture, furnishings and a wide range of domestic equipment would almost certainly enable them to offer still more competitive prices for all their customers including of course, UK Government Departments. A number of Commonwealth and foreign Governments are already showing an interest in using their services and they find themselves at some disadvantage because of their relative inexperience of overseas trading. That experience could presumably be provided from the Crown Agents if we decided to transfer that part of their responsibilities.

As it happens I shall be announcing on 18 January a new name and corporate identity for PSA Supplies. Their new title would be particularly appropriate to a wider area of responsibility and would neatly cover such of the purchasing functions of the Crown Agents as we decided to transfer.

I hope you will give this idea serious consideration.

Copies of this letter go to the recipients of yours.

Yours sincerely

L. Robinson

pp PATRICK JENKIN  
(Approved by the Secretary of State and signed in his absence).



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BF 14/2/83 A

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

Meeting folder to

15 Dec.

FOREIGN AND COMMONWEALTH SECRETARY

ADG.  
/r.

CROWN AGENTS

... I understand that on 15 December we are to discuss in OD your paper OD(83)18. I have read it with interest, but without finding much reflection of the views I had previously put to you, in my minute of 28 November, a copy of which I attach. The only point I would now add, in view of your new reference to price certification, is that this seems a further example of business which really is more appropriate to the private sector than to a public corporation.

2. Copies of this minute and enclosure go to the Prime Minister, our OD colleagues, Patrick Jenkin (in view of the PSA angle: his letter today to me), and Sir Robert Armstrong.

N.L.

8 December 1983

CONFIDENTIAL





Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

FOREIGN AND COMMONWEALTH SECRETARY

CROWN AGENTS

Thank you for your minute of 14 November. I have also seen Grey Gowrie's letter of 24 November.

2. I agree that the two essential issues are the Crown Agents' prospects of financial viability, and the value of the benefits they bring to the UK.

3. On the question of their future viability, I accept that we should take seriously the assessment of Peter Graham and his Board. But I frankly find it difficult to believe that all, or a sufficient number, of the assumptions on which future viability depends will be validated. It is clear that there are serious risks. It takes only a slightly less optimistic - and arguably more realistic - set of assumptions than those made by the Board to produce a forecast of continuing losses, with the unwelcome prospect of a need for further Government assistance in the future. Even the Board's own forecast of future viability depends heavily on the Crown Agents' continuing to make a substantial profit on their work for ODA, which could probably be done more economically by the Department itself. In other words, if we accept the course you have in mind, there must be a high risk that we shall be considering the same case for closure in another 2 or 3 years' time.

4. I would not deny that the Crown Agents have some value for our relations with certain countries overseas and in bringing business to UK firms. But one could explore, perhaps in consultation with the CBI, whether arrangements could be made with the private sector (or just conceivably with PSA Supplies) to retain at least some of these benefits, perhaps (if we decide to use PSA Supplies) retaining the Crown Agents' name.

5. I understand your reasons for suggesting a trial period until 1986. However I suspect that the cost of closure then would be higher. Moreover, the political





arguments do not all point one way. It could be easier to legislate now, towards the end of the interim period prescribed under the Labour Government's 1979 Act, than to have to justify legislation towards the end of this Parliament. Our own decision not to close them earlier would then be in question, and legislation in the run-up to an Election would be unattractive.

6. More generally it does not seem to me that Crown Agents do much which could not be done better either by the Government itself or by the private sector. Frankly, I do not think that the case for allowing them to continue as a public sector organisation has been made out; and my inclination therefore is to go for closure now.

Copies of this minute go to Norman Tebbit, Patrick Jenkin (in view of the reference to PSA Supplies), Grey Gowrie and Sir Robert Armstrong.

*J. Kew*

PP (N.L.)

28 November 1983

[Approved by the Chancellor,  
signed in his absence.]



Good Mach June 79  
Crown Agents.

29 DEC 1983





CONFIDENTIAL

8 December 1983

MR COLLES

Prime Minister.

THE FUTURE OF THE CROWN AGENTS

David Hobson has cast an eye over the Treasury and Foreign Office plans for the Crown Agents in the wake of the Brunei contract loss.

The Board argue that there is a viable future for the Crown Agents if it is slimmed down. The Treasury think the assumptions on which future viability depends will prove optimistic. In that event, further Government assistance would be needed in the future. We think the Treasury are correct.

The value of the Crown Agents to the country rests principally on their procurement services which can help British exporters secure contracts overseas. The remaining services would probably best be carried out by the private sector, especially the engineering, consultancy and financial transactions; or by the Civil Service, as with the payment of public service pensions. Economies could be achieved in the latter case by transfer.

The two remedies suggested entail either closure now, which would require legislation and which would be controversial; or backing the Board until 1986. This requires Parliamentary approval to remit interest owing in 1985 and 1986. In 1986, if things went wrong, legislation would be needed to subsidise the organisation or wind it up, possibly in the run-up to an Election. The "initial period" defined in the Crown Agents Act 1979 would by then have expired.

We do not like either solution. One entails an act of faith likely to prove misplaced and delays facing realities; the other threatens some worthwhile business opportunities.

We recommend that the Board be charged with disposing of those activities that are suitable either for private sector management, or for Civil Service management, preferably transferring some staff as well as contracts and activities. The remaining procurement business serving smaller countries could remain under a very small Crown Agents operation, or this could be transferred to the PSA

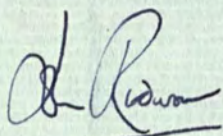
CONFIDENTIAL



E. R.

whilst preserving the name and associations. Where the Crown Agents' name is important to part of the engineering or financial activity, a partnership arrangement with the private sector should be explored.

Tough targets for transfer of business should be set.



JOHN REDWOOD





CF  
PE keep

10 DOWNING STREET

MR FLESHER

The future size of the Crown Agents is coming to a head following the loss of £3bn business in Brunei.

Decisions are imminent and these could repercuss on industry.

You may therefore like to have this note of what they do.

A handwritten signature in cursive script, appearing to read 'B. Ingham'.

B. INGHAM

4 November 1983



## THE CROWN AGENTS AND THE UK INTEREST

It is impossible in a short space to describe fully the many ways in which the Crown Agents actively develop new business and thereby create opportunities for British exporters and promote a British presence in developing countries. Overall transactions by or through the Crown Agents' which were financed from overseas sources earned £98.5 million in 1982 and £51.5 million in the first half of 1983. The centre pages highlight major projects with which the Crown Agents are currently involved, while this and the back page describe how their activities benefit Britain.

### Buying in Britain

The core of the Crown Agents' business is buying, and their other activities - described on page four - ultimately support the buying activity. In 1982 the Crown Agents placed orders worth £144 million on behalf of 72 countries and they expect to place £164 million in 1983. Within those figures:

- \* over 80% of orders were placed in Britain. The Crown Agents maintain details of more than 12,000 British exporters;
- \* £59 million of goods were ordered in Britain in 1982 through the Crown Agents which were paid for from developing countries' own funds. The Crown Agents play an important role in ensuring that countries as diverse as Kenya and PDR Yemen maintain British procurement links;
- \* £39 million of goods were ordered from more than 2,400 firms not listed by the Financial Times as quoted companies, nor owned by such firms. The Crown Agents have proved particularly useful to such, mainly small, firms who do not have the resource to undertake their own promotion in remote markets or to handle the complex export documentation, shipping, and payment requirements (nor can their cash flow sustain the risk of delayed payment);
- \* the Crown Agents' eighteen overseas offices and UK based marketing force (their staff spent 4,500 man days abroad in 1982) provide a unmatched monitoring service of central tender boards and purchasing agencies in a very wide range of small markets. It is only worthwhile for a very broadly based organisation to seek to develop such markets;
- \* the Crown Agents are increasingly involved with multilateral programmes and a wide variety of donor agencies. They have won the management of projects funded from such sources with an estimated £54 million worth of procurement in the past twelve months, against foreign competition. British suppliers invariably have a fair opportunity to tender for this business on an internationally advertised basis, which is seldom the case when projects are managed by other countries' nationals. In just two current World Bank loans, the Crown Agents have issued over 3,700 sets of tender documents to British firms including a number which were unsolicited by them;
- \* the Crown Agents have the capability, resource and experience to act as a main contractor where several suppliers are needed to make a comprehensive UK bid, especially when supply functions need to be combined with training and management inputs, or where foreign competitors have enlisted the support of their governments.



**PROJECTS UNDERTAKEN DURING 1982 AND 1983**

Funded from other than UK sources

| Country   | Project Title   | Total Value    | Consultancy Services (man/months) | Procurement    |
|---|---|----------------|-----------------------------------|----------------|
| <b>WORLD BANK</b>   |   |                |                                   |                |
| Ethiopia  | Coffee Processing and Marketing                       | US\$0.03m      | 3                                 | Study only     |
| Ethiopia  | Amibara Irrigation Project                            |                |                                   |                |
| Ethiopia  | Rural Workshops Rehabilitation                        | Not determined | 8                                 | Not determined |
| Gambia  | Ministry of Works Procurement                         | US\$4.4 m      |                                   | US\$4.4 m      |
| Ghana   | Reconstruction Import Credit                          | US\$ 30 m      | 18                                | US\$ 30 m      |
| Ghana   | Third Highways Loan                                   |                |                                   | US\$1.5 m      |
| Ghana   | Railways Procurement Loan                             | US\$ 39 m      |                                   |                |
| Jamaica   | Education Loan  | US\$ 5 m       |                                   | US\$ 5 m       |
| Kenya   | First Telecommunications Project                      | US\$4.5 m      | 11                                | US\$4.5 m      |
| Kenya   | Second Telecommunications Project                     | US\$ 16 m      | 15                                | US\$ 16 m      |
| Kenya   | Motor Transport Department                            | US\$0.3 m      | 60                                | Consultancy    |
| Kenya   | Basic Education Supplies                              |                |                                   | US\$11.5m      |
| Kenya   | Bura Irrigation Project                               | US\$ 2 m       | 25                                | N/A            |
| Kenya   | Railways Project                                      | US\$2.7 m      | 25                                | US\$2.7 m      |
| Madagascar  | Agricultural Project                                  |                |                                   | US\$0.2 m      |
| Malawi  | Road Maintenance Survey                               |                |                                   |                |
| Malawi  | Central Lakeshore Fisheries Development               | US\$0.6 m      | 115                               | N/A            |
| Nepal   | Telephone Exchange                                    |                |                                   |                |
| Nigeria   | Federal Agricultural Co-ordination Unit               |                |                                   |                |
| Papua New Guinea  | Road Maintenance Study                                | US\$0.42m      | 78                                | N/A            |
| Papua New Guinea  | Area Development Studies                              |                | 24                                | N/A            |
| PDRY  | Mukalla Hadramawt Road (also AFESD)                   |                |                                   |                |
| PDRY  | Aden-Taiz Road (also KFAED)                           | US\$73.5m      | 1540                              | N/A            |
| Sierra Leone  | Ministry of Works Second Highway Project              |                |                                   | US\$0.2 m      |
| Sri Lanka   | Central Transport Board                               | US\$0.4 m      | 108                               | N/A            |
| Sudan   | Agricultural Rehabilitation Programme                 |                |                                   |                |
| Sudan   | New Halfa Agricultural Production Corporation         | US\$ 74 m      | 78                                | N/A            |
| Uganda  | Third Education Loan                                  | US\$ 30 m      | 6                                 | N/A            |
| Uganda  | Second Reconstruction Programme                       | US\$ 70 m      | 24                                | US\$ 70 m      |
| Uganda  | Agricultural Rehabilitation (also Italian Government) | US\$ 80 m      | 120                               | US\$ 80 m      |
| Uganda  | Telecommunications Project                            | US\$ 2 m       | 100                               | N/A            |
| Tanzania  | Dar-Es-Salaam Sewerage                                | US\$ 28 m      | 264                               | US\$ 3 m       |
| Tanzania  | Post and Telecommunications Project                   |                |                                   |                |
| Tanzania  | Provision of Fisheries Experts                        | US\$ 2 m       | 100                               | N/A            |
| Tanzania  | Morogoro Highway Maintenance                          |                |                                   |                |
| Tanzania  | Cashew Nuts Projects 1 & 2                            | US\$0.1 m      | 1                                 | Consultancy    |
| Tanzania  | Pyrethrum Board Procurement                           |                |                                   | US\$0.1 m      |
| Tanzania  | Seventh IDA Education Procurement                     |                |                                   | US\$0.15m      |
| <b>INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (IFAD)</b> |   |                |                                   |                |
| Cameroon  | Rural Agricultural Dev. NW Province (also AFDB, EDF)  | US\$ 20 m      | 120                               | N/A            |
| Mozambique  | National Food Production                              | US\$ 26 m      | 102                               | N/A            |
| Malawi  | ADMARC Fertiliser Project                             | US\$ 28 m      | 48                                | N/A            |
| Papua New Guinea  | Artisanal Fisheries Project                           | US\$ 12 m      |                                   | N/A            |
| Uganda  | Agricultural Reconstruction Programme                 | US\$ 20 m      | 119                               | US\$ 20 m      |
| <b>EUROPEAN DEVELOPMENT FUND (EDF)</b>                        |   |                |                                   |                |
| Fiji  | Project Planning Team                                 | US\$0.3 m      | 39                                | N/A            |
| Guinea Conakry  | Fisheries Polytechnic Development                     | US\$0.5 m      | 44                                | N/A            |
| Jordan  | University Equipment Procurement                      | US\$0.7 m      |                                   | US\$0.7 m      |
| Kiribati  | Urban Telecommunications Project                      | US\$0.25m      |                                   | US\$0.25m      |
| Liberia   | Tubman College Development                            | US\$0.6 m      | 72                                | N/A            |
| Mauritius   | Drugs & Medical Supply                                | US\$0.4 m      | 15                                | US\$0.4 m      |
| Mozambique  | Artisanal Fisheries Development Project               | US\$3.0 m      | 2                                 | N/A            |
| Malawi  | Central Lakeshore Fisheries Project                   | US\$0.50m      | 115                               | N/A            |
| PNG   | University of Technology Procurement                  |                |                                   |                |
| PNG   | Works & Supply Procurement                            |                |                                   |                |
| Solomon Islands   | Posts & Telecommunications Development Project        | US\$6.6 m      | 18                                | N/A            |
| Uganda  | Waterworks Rehabilitation                             | US\$10.5m      | 65                                | US\$2.3 m      |
| Uganda  | Lake Katwe Project                                    |                |                                   |                |
| Zimbabwe  | Project Planning Team                                 | US\$0.6 m      | 60                                | N/A            |
| <b>ASIAN DEVELOPMENT BANK (AsDB)</b>                          |   |                |                                   |                |
| Nepal   | Livestock Vaccine Project (with UNDP)                 | US\$0.6 m      | 67                                | N/A            |
| <b>AFRICAN DEVELOPMENT BANK (AfDB)</b>                        |   |                |                                   |                |
| Lesotho   | Beef and Poultry Project                              | US\$0.01m      | 1                                 | Consultancy    |
| <b>CARIBBEAN DEVELOPMENT BANK</b>                             |   |                |                                   |                |
| Jamaica   | Caribbean Cement Company Procurement (with IADB)      | US\$1.4 m      | 5                                 | US\$1.4 m      |
| St Lucia  | Roads Programme (with USAID)                          | US\$2.3 m      | 75                                | N/A            |
| <b>COMMONWEALTH DEVELOPMENT CORPORATION</b>                   |   |                |                                   |                |
| Gambia  | Fisheries Appraisal Mission                           |                |                                   |                |
| <b>ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND PACIFIC</b>    |   |                |                                   |                |
| China   | Ports Training Seminar                                | N/A            | 2                                 | Seminar only   |
| Thailand  | Ports Training Seminar                                | N/A            | 3                                 | Seminar only   |
| Malaysia  | Ports Training Seminar                                | N/A            | 2                                 | Seminar only   |

| Country  | Project Title  | Total Value | Consultancy Services (man/months) | Procurement |
|--|--|-------------|-----------------------------------|-------------|
| <b>IRISH GOVERNMENT</b>  |  |             |                                   |             |
| Zambia, Tanzania   | Agricultural Project                                       |             |                                   | US\$0.15m   |
| <b>LIBYAN GOVERNMENT</b>   |  |             |                                   |             |
| Guyana   | Fisheries Corporation                                      | US\$ 6 m    | 9                                 | N/A         |
| <b>NORWEGIAN GOVERNMENT</b>  |  |             |                                   |             |
| Mozambique   | Zambezia Road Project                                      |             |                                   | US\$0.5 m   |
| <b>ECGD - BACKED CREDIT</b>  |  |             |                                   |             |
| Ghana  | Mim Timber Company   |             |                                   |             |
| Ghana  | Gold Mining Corporation                                    | US\$3.4 m   |                                   | US\$3.4 m   |
| Kenya  | Mombasa Port Authority Improvements                        | US\$ 34 m   | 28                                | US\$ 34 m   |
| <b>UNITED NATIONS HIGH COMMISSION ON SETTLEMENTS</b>                   |  |             |                                   |             |
| Tanzania   | Capital Development Authority                              |             |                                   |             |
| <b>UNITED NATIONS DEVELOPMENT PROGRAMME</b>                            |  |             |                                   |             |
| Papua New Guinea   | Fisheries Evaluation                                       |             |                                   |             |
| Thailand   | Integrated Rainfed Farming Mission                         | US\$0.01m   | 1                                 | N/A         |
| <b>UNITED NATIONS EDUCATIONAL SCIENTIFIC AND CULTURAL ORGANISATION</b> |  |             |                                   |             |
| Uganda   | Assistance to Government Printer                           | US\$0.08m   | 12                                | N/A         |
| Qatar  | Inspection of Marine Vessels                               |             |                                   | N/A         |
| <b>UNITED NATIONS FUND FOR POPULATION ACTIVITIES</b>                   |  |             |                                   |             |
| India  | Inspection of Family Planning Supplies                     |             |                                   | N/A         |
| <b>UNITED NATIONS HIGH COMMISSION FOR REFUGEES</b>                     |  |             |                                   |             |
| Algeria  | Emergency Supplies   |             |                                   |             |
| Pakistan   | Emergency Supplies for Refugees                            |             |                                   |             |
| Zaire  | Emergency Supplies for Refugees                            | US\$1.3 m   | 25                                | N/A         |
| <b>UNITED NATIONS CHILDREN'S FUND</b>                                  |  |             |                                   |             |
| India  | Development of Hand Pump Manufacture                       | US\$4.3 m   | 24                                | N/A         |
| Nepal  | Inspection Contract  |             |                                   |             |
| Thailand   | Inspection Contract  |             |                                   |             |
| Somalia  | Emergency Medical Supplies                                 |             |                                   |             |
| <b>OWN FUNDED PROJECTS</b>   |  |             |                                   |             |
| Abu Dhabi  | Inspection of Water and Electricity Equipment              |             |                                   |             |
| Bahrain  | Inspection of Electrical Equipment                         |             |                                   |             |
| Bahrain  | Central Stores Inspection                                  |             |                                   |             |
| Botswana   | Planning of Health Workshops                               |             |                                   |             |
| Brazil   | Jucu Power Station   |             |                                   |             |
| Brunei   | Inspection of Electrical Equipment                         |             |                                   |             |
| Brunei   | Supervision of Tug Construction                            | US\$2.4 m   | 3                                 |             |
| Brunei   | RBM Marine Engineering                                     |             |                                   |             |
| Brunei   | Commissioning of General Hospital                          | US\$26.4m   | 155                               | US\$26.4m   |
| Brunei   | Inspection of Equipment for Ministry of Works              |             |                                   |             |
| Brunei   | Willeroo Cattle Ranch                                      | US\$6.75m   |                                   |             |
| Cayman Islands   | Public Works Civil Engineering                             |             |                                   |             |
| Fiji   | Health Services Consultancy                                |             |                                   |             |
| Ghana  | Financial Consultancy to Bank of Ghana                     |             | 3                                 | Consultancy |
| Guyana   | Tender Evaluation for Fishing Vessels                      | US\$4.7 m   | 2                                 |             |
| Hong Kong  | Kowloon - Canton Railway: Procurement and Installation     | US\$12.3m   | 35                                | US\$12.3m   |
| Hong Kong  | Government Supplies Inspection                             |             |                                   |             |
| Hong Kong  | Inspection of Equipment for Water Department               |             |                                   |             |
| Kenya  | Reorganisation of Motor Transport Department               | US\$0.28m   | 60                                |             |
| Lebanon  | Hospital Design and Equipment                              |             | 1                                 |             |
| Libya  | Oasis Oil  | US\$0.02 m  |                                   |             |
| Malawi   | High Commission Engineering Consultancy                    |             |                                   |             |
| Malaysia   | Inspection of Equipment for National Electricity Board     |             |                                   |             |
| Malaysia Sabah   | Drainage and Irrigation Inspection                         |             |                                   |             |
| Mauritius  | Fisheries Study  |             |                                   |             |
| Morocco  | Public Testing Laboratory                                  |             |                                   |             |
| Nigeria  | Procurement of Wagons for National Petroleum Corporation   | US\$20.3m   |                                   | US\$20.3m   |
| Nigeria  | Procurement of Dangerous Drugs                             | US\$0.135m  | 2                                 | US\$0.135m  |
| Nigeria  | Ports Authority Inspection                                 |             |                                   |             |
| Nigeria  | Railways Inspection  | US\$120.0m  | 260                               | US\$120.0m  |
| Nigeria (Bauchi St)  | Lanzai Jamari Road: Construction Supervision               | US\$18 m    |                                   |             |
| Nigeria (Borno St)   | Rural Electrification                                      |             |                                   |             |
| Nigeria (Ogun St)  | Ijebu-Igbo Water   | US\$9.45m   | 160                               |             |
| Papua New Guinea   | Kandrian Gloucester Development Study                      | US\$0.1 m   | 16                                |             |
| Papua New Guinea   | Electricity, Works and Supply                              |             |                                   |             |
| Papua New Guinea   | Harbour Launches Inspection                                |             |                                   |             |
| PDRY   | Capital Municipality                                       |             |                                   |             |
| PDRY   | Ministry of Health Equipment Scheduling                    |             |                                   |             |
| PDRY   | Navigation Line Expansion Study and Design                 |             | 3                                 | Study only  |
| PDRY   | Computer Room Airconditioning Planning                     | US\$0.19m   |                                   | US\$0.19 m  |
| PDRY   | HQ Airconditioning for Telecommunication Corporation       | US\$0.41m   | 5                                 | US\$0.41 m  |
| PDRY   | Airconditioning for Tawahi Broadcasting                    | US\$0.14m   |                                   |             |
| Saudi Arabia   | Najran Electricity Corporation Inspection                  | US\$50 m    |                                   |             |
| Seychelles   | Health   |             |                                   |             |
| Sri Lanka  | Water Supply and Training Inspection                       |             |                                   |             |
| Tanzania   | Water and Energy   |             |                                   |             |
| Uganda   | Ministry of Defence Mechanised Farms: Identification Study |             | 1                                 | Study only  |
| Uganda   | National Water and Sewerage Corporation                    |             |                                   |             |

In addition, the Crown Agents buy extensive recurrent supplies. The value of these exceeds £1 million every year for Nigeria, Kenya, Malaysia, Jamaica, Hong Kong, Brunei and Fiji.



## Project Management

The Crown Agents project management services in supply advisory, agriculture, fisheries and engineering similarly bring work to British consultants, both firms and individuals, as well as buying opportunities. Increasingly small firms are approaching them in order to add weight to proposals to Governments and aid agencies; the Crown Agents have collaborated equally on recent projects with some of Britain's largest engineering and agricultural consultancy firms who value their close links with developing countries. Many academic and publicly-owned research institutes, and other nationalised industries, are venturing into export markets with the assistance of the Crown Agents as a partner. In 1982 and the first half of 1983:

- \* the Crown Agents have submitted proposals in collaboration with a total of more than fifty such institutions and firms, and have discussed collaboration with many more;
- \* 192 individuals have been employed as expert consultants by the Crown Agents, or seconded to developing countries as project managers; Crown Agents are currently recruiting for 85 non-UK funded posts in developing countries, often for key positions for influencing contract placements;
- \* of those projects over seventy were funded by non-UK sources, earning a fee income of £5.7 million and leading to procurement of £75 million.

## Training Services

In the past three years the Crown Agents have trained over 700 developing country nationals on their UK based courses, primarily in supply management and related fields. Many of the Crown Agents' ex-trainees now occupy positions of great potential importance to the UK export effort, including Directors (or equivalent) of Government Supplies in such countries as Saudia Arabia, Kenya, Sri Lanka, Sudan, Botswana, Swaziland and Papua New Guinea. Not only have trainees been exposed to British standards, methods, and goods during their training but in most cases they retain their links with the Crown Agents, with potential for future increased business.

## Financial Services

Although the Crown Agents' financial services have necessarily been reduced following loss of the Brunei Investment Management contract, they still manage more than 200 funds with an aggregate value of more than £800 million, which results in invisible earnings of over £1m.

## Other Services

Principals' funds linked to developing countries' self-funded buying currently amount to £160 million Sterling equivalent and without such buying being undertaken by the Crown Agents it is doubtful whether many of the funds would be maintained in British hands. Other forms of invisible earnings to the UK from the Crown Agents are shipping (£15 million per annum) and insurance (£1.5 million).





HL

10 DOWNING STREET

*From the Principal Private Secretary*

SIR ROBERT ARMSTRONG

Report of the Crown Agents Tribunal

Thank you for your minute of 15 December A082/0536. The Prime Minister agrees that a statement should not be volunteered but that it should be used if Lord Vaizey gets his debate in the House of Lords or if a request for a statement comes up in some other way.

FEB

16 December 1982

CONFIDENTIAL

88



Prime Minister

Ref. A082/0536

MR BUTLER

Yes not

Agree to let sleeping  
dogs lie (unless Lord Vaizey gets a debate  
or someone puts down a question), rather  
than volunteer a statement of the  
lines attached to this minute?

Report of the Crown Agents Tribunal

FERB

15.12.

--- The Report of the Tribunal of Inquiry on the Crown Agents was published in May this year; publication was announced to the House by the Prime Minister in a Written Parliamentary Answer (text attached).

2. As the Prime Minister will recall, the Report had some severe things to say about both the organisations and some of the individuals involved in the disastrous losses made by the Crown Agents, in particular through their secondary banking activities. Criticisms were expressed about two former Ministers, Dame Judith Hart and Lord Holderness, and a number of senior civil servants and Bank of England staff.

3. The Report attracted some Press attention at the time of publication, but - no doubt partly at least because of the South Atlantic operations - interest in it quickly died down, and there have been only two Questions asked in Parliament about it, both on the subject of what disciplinary action has been taken against those criticised in the Report. A member of the House of Lords, Lord Vaizey, has recently given notice of a motion to call attention to the Report; there may, therefore, be a Debate in the Lords, but this depends on Lord Vaizey naming a day and succeeding in a ballot, and is not yet definite.

4. Meanwhile, a number of those criticised in the Report have complained to their Departments about what they felt to be shortcomings of natural justice in the Tribunal's proceedings, while Sir Claude Hayes, Chairman of the Crown Agents at the relevant time and severely criticised in the Report, continues to feel that he was made the scapegoat for many errors at least shared by others. The Salmon Commission itself, however, accepted that the risks of hurt and injustice to persons involved in an inquiry are inherent in and cannot be eliminated from any procedure which is effective





for arriving at the truth. The Commission's safeguards were advanced as a means of reducing not eliminating those risks. Whilst recognising that the proceedings of the Crown Agents Tribunal have left some of those involved with a feeling of grievance, we do not believe that this can be ascribed to any procedure of the Tribunal which might have been improved upon without an impracticable degree of elaboration. It is for this reason that the Home Secretary is satisfied that the Tribunal's recommendation that there should be no further legislation to introduce statutory safeguards for witnesses should be accepted.

5. There seem to be three possible courses for the Government to take:-

- i. to do nothing further, on the grounds that there is little public or Parliamentary interest in the Report;
- ii. to make a further Parliamentary statement, either oral or (more probably) written, aimed at drawing a line under the Report and setting out the Government's general conclusions about the need for and the proceedings of Tribunals of this kind;
- iii. to provide Government time for a debate.

6. There seems to be little pressure for a debate in the Commons, and no real reason why the Government should wish to make time for one, especially as a debate in the Lords is a possibility. A debate could be difficult to handle, if those criticised in the Report feel that their views must be placed on record. Most of those criticised would no doubt prefer no further publicity.

7. The case for some further action is partly that it may seem to be not entirely satisfactory to leave the Report hanging in the air, and partly to get on the record a Government statement about Tribunals of Inquiry and their procedures. The best way of doing this would seem to be an arranged Written Parliamentary Question and Answer, aimed to draw a line under the Report. A draft of such a statement is annexed. Its terms have been agreed with the Departments concerned (Treasury, Home Office and ODA) and the Home Secretary would be content with the line proposed.





It remains very much a matter of judgement whether it is better to leave things where they are by doing nothing, or to seek to draw a line under the Report by a statement on these lines with the inevitable risk that this would resuscitate interest in the Report. The Home Office would like to get on record a statement about the procedures of Tribunals of Inquiry, and therefore favour a statement. The Overseas Development Administration would on the whole like to see a tidy line drawn under the affair, and would like a statement if it had that effect. The Treasury would prefer to make no statement, and let sleeping dogs lie.

8. I see no call or need to volunteer a statement, and I believe that a statement would not be the end of the matter but would generate further questions. I would therefore recommend doing nothing at this stage. If a question is put down, or if Lord Vaizey gets his debate in the House of Lords, the draft statement can then be used, either as a written answer or as material for a speech by a Government spokesman in the House of Lords.

9. I am sending copies of this minute to the Private Secretaries to the Home Secretary, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Lord President, the Lord Privy Seal and the Attorney General.

ROBERT ARMSTRONG

15th December 1982





DRAFT

CROWN AGENTS TRIBUNAL  
[For Written Answer]

..... To ask the Prime Minister, whether she will make a further statement on the Report of the Tribunal of Inquiry on the Crown Agents.

PRIME MINISTER

The Government has now completed its study of the Tribunal's findings, to which I referred in my Answer [to the Hon Member] on 26th May.

2. The organisations concerned have reviewed the comments in the Report relating to them, to see whether any further steps beyond those that have already been taken are needed.

3. In the case of the Crown Agents themselves, the constitution and role of the Agents and their relationship with Government have been, since the events which formed the subject of the Tribunal's Report, defined and regulated by the Crown Agents Act 1979 under which the Crown Agents were incorporated with effect from 1st January 1980. In 1975, at the direction of the then Minister of Overseas Development, the Crown Agents started to disengage from their own-account activities in property and secondary banking, and since then they have confined themselves to performing successfully their traditional role of providing services to and in respect of overseas Governments and administrations, particularly in





the developing world. The 1979 Act endowed the Crown Agents with the recognised legal status of a statutory corporation, thus ending the uncertainty and the legal difficulties which surrounded their previous status as an unincorporated Crown body. The Act also set up a separate Crown Agents Holding and Realisation Board with responsibility for holding and realising the assets and discharging the liabilities which arose from the own-account activities. The Board has successfully disposed of the previous Crown Agents property holdings in Australia and some further holdings elsewhere. As a result it has been able to repay £17m to the Consolidated Fund to date after discharging the liabilities arising from the original investment.

4. As to accountability and control, the 1979 Act requires the Crown Agents to comply with any requirements relating to the accounts notified by the Secretary of State, with the approval of the Treasury, and he is required to lay the accounts before Parliament. The Secretary of State, with the approval of the Treasury, has set a financial target for the Crown Agents which they are expected to achieve by 1984. Internal control procedures within the Crown Agents have been overhauled and improved. In the light of all these significant changes, the Government is satisfied, after studying the findings of the Tribunal, that no amendments to the 1979 Act or any further measures at the present time are necessary.





5. The Government has also considered the criticisms made in the Report of the operation and procedure of Departments and of the Bank of England. These criticisms were prompted by the Crown Agents case, but are relevant to the Government's relationship with other organisations which might involve a significant risk to public funds. Since the events of 1967-74 the Departments concerned have taken steps to clarify responsibilities and tighten up procedures and have further reviewed them since the Tribunal reported. I understand that the Governor of the Bank of England has also taken action regarding the Tribunal's comments on the Bank's procedures. He had already completely overhauled its structure and organisation in 1980 and introduced further modifications earlier this year.

6. The Government has noted the comments made by the Tribunal and by others about the general question of the procedures to be adopted by Tribunals of Inquiry under the 1921 Act, and in particular the Tribunal's view that no legislation is needed in this connection. These procedures were the subject of recommendations made by the Royal Commission on Tribunals of Inquiry under the Chairmanship of the Rt Hon Lord Justice Salmon which reported in 1966 (Cmnd 3121). The recommendations were subsequently broadly endorsed in a Government White Paper in 1973 (Cmnd 5313). The implementation of a number of them would in fact have required legislation. The Government accepts the Crown Agents Tribunal's conclusions





on procedure, and accordingly considers that the proper safeguards for persons involved in inquiries - the need for which the Government recognises - can be adequately applied by Tribunals under the provisions of existing legislation, to which no amendment is therefore needed.

7. [I wish to repeat the Government's appreciation and gratitude to the members of the Tribunal for their Report.]





Gov Mach

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10 DOWNING STREET

*From the Principal Private Secretary*

MR. HATFIELD  
CABINET OFFICE

Crown Agents Tribunal

I saw on my return from the Far East the letter of 23 September from Sir Claude Hayes, and felt that the best way of dealing with this was for me to send a quick acknowledgement which would save me from having to make any further substantive comment.

I spoke to Colin Peterson who agreed with this view, and I enclose a copy of the letter which I have sent to Hayes.

This letter therefore discharges you from any obligation to render advice in response to Michael Scholar's minute of 27 September.

F.E.R.B.

30 September 1982

CM





10 DOWNING STREET

*From the Principal Private Secretary*

30 September 1982

I found on my return from the Far East your letter of 23 September enclosing your note of comments on the Report of the Tribunal on the Crown Agents.

As the Prime Minister said when the Report was published, the Government is studying the Report and the lessons to be drawn from it, and in that connection it is very useful to have your view. I well realise how difficult it is for you to write about this subject without your motives being misinterpreted: we are old enough friends for me to know that you will have done your utmost to comment on the Report objectively.

E. E. R. BUTLER

Sir Claude Hayes, K.C.M.G.





10 DOWNING STREET

*From the Private Secretary*

MR. HATFIELD  
CABINET OFFICE

BF

Crown Agents Tribunal

I attach a copy of a letter which Robin Butler has received from Sir Claude Hayes.

This is Sir Claude Hayes' assessment of the Crown Agents Tribunal, which he offers on the assumption that the Prime Minister will be making a statement about the Report of the Crown Agents Tribunal. Sir Claude's remarks are on familiar lines: the responsibility for Crown Agents' losses lies in the Government departments who ignored his reiterated requests for the appointment of an experienced banker inside the Crown Agents, and formed a kind of conspiracy against him. The Bank of England /allegedly is similarly criticised, and the Tribunal itself for its/biased treatment of Hayes on the one hand and all the other people concerned on the other.

I am not sure that Robin Butler will wish to reply in any detail to the letter. However, I would be grateful for your advice.

M. C. SCHOLAR

27 September 1982

SS



PRINKHAM  
CHIDDINGSTONE HOATH  
EDENBRIDGE  
KENT TN8 7DN

23 September 1982

Dear Robin,

Congratulations on your  
appointment - all my predictions  
are in vain.

Yours,

Claude



PRINKHAM  
CHIDDINGSTONE HOATH  
EDENBRIDGE  
KENT TN8 7DN

23 September 1982.

*Dear Patric,*

I suppose that the Prime Minister will need to make a statement about the Report of the Crown Agents Tribunal and that it is being examined to that end.

I should not like her to make one in good faith on the basis that the Report fairly reflects the evidence, and be embarrassed afterwards when it is shown that it does not do so and amounts to a cover-up of the civil service. It was to expose any government cover-up that the Commons voted for a statutory Tribunal instead of another departmental committee.

The Report is a cover-up of the Ministry (Overseas Development). Broadly it portrays the Ministry as open and above reproach and only seeking information, while it heavily criticises the Head of the Crown Agents (me) for an attitude of belligerent hostility towards the Ministry. It was not like that -- the Dr. Jekyll of thirty years does not become Mr. Hyde overnight in real life. Ministry officials were far from open and had their own ulterior motives for refusing the Crown Agents the help they needed.

I cannot be seen to say this objectively, but I am almost alone in being able to point to the selective nature and method of the Report since I am familiar with all the huge mass of documents and sat through nearly the Tribunal's sittings. It is not apparent in the Report itself that much documentary evidence of lapsed official standards has been passed over, nor on the other hand that the Tribunal's personal criticisms



PRINKHAM  
CHIDDINGSTONE HOATH  
EDENBRIDGE  
KENT

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of me are largely hearsay and were not put to me. I believe that an impartial person with no instinct to protect civil servants, who studied the Report in conjunction with all the evidence, might well come to the opposite conclusion : that the Ministry itself brought about the situation in which the Crown Agents had to be bailed out by the Government. The difficulty is that the evidence is a mass of trivialities, though I have notes on it which could help to find the relevant ones.

I enclose an essay in higher journalism which indicates what concerns me, as much in the cause of honest government as in my own defence. No. 10 has no time for all this, but para 4 on Part V of the Report is a good example of mild reprimand to the Ministry aimed off, in contrast with overkill of me and absence of comment that the Ministry spent four years doing nothing. While it may not always be easy for a Tribunal to identify "lapses from accepted standards", there seems to be consistent maladministration here.

Several people who knew the Crown Agents at the time might find it hard to swallow the Report; Nigel Fisher, Peter Hordern, Arthur Bottomley, Lord Shackleton, and others.

Yours sincerely,  
Claude Hayes



## REPORT OF THE TRIBUNAL ON THE CROWN AGENTS

1. One reason why the House of Commons voted for a statutory Tribunal in December 1977 was the suspicion that the Fay Committee of 1975-77 had not exposed government corruption or inefficiency. The important question for Parliament and public now is whether there was a "cover-up" and if so whether the Tribunal has exposed it. The Tribunal found no corruption in general. On efficiency, it criticises the Ministry of Overseas Development, the Treasury, the Bank of England, and the Crown Agents in varying degrees for the situation in which the Crown Agents had to be supported by £85m from public funds in 1975. The first three are criticised essentially as institutions; the criticisms of the Crown Agents, as regards management, are personal ones of Hayes as if he were the Minister's official. There is no indication that he represented a commercial body dependant on its earnings whose sole raison d'être was the overseas governments for whom it worked.
2. What went wrong is simple and obvious: the Crown Agents' banking section made commercial loans on their own account without proper security and without the reserves to meet serious default. The Director of Finance, Challis, is censured for this. The Chairman, Hayes, who was solely responsible for the Crown Agents, is also criticised for failing to control this activity personally. He wanted an experienced banker in his management to supervise Challis; the Tribunal did not think that this would have made any difference. The Tribunal held hearings for four years, had 30,000 documents, and wrote a Report of 525 pages. Clearly it had to compress greatly and select what to report about. The question is whether its criticisms are fair as between Ministry/Treasury/Bank and Hayes. A careful reading of the Report in the light of the evidence (not referred to in the Report) suggests a light hand on the first three and a heavy hand on Hayes; it also shows that the character criticisms in the Report are all of Hayes and not of any officials whose actions and minuting in the documents are not at all objective.
3. One criticism of Hayes is that he was aloof from the day-to-day work of banking, and did not find out what was going on or regard it as his job to become involved in day-to-day business, etc. (31.05) Hayes was the sole chief executive of a world-wide business with 1800 staff in ten countries, <sup>about</sup> ~~more~~ 20 main activities some of great value (one had assets of £100m, investment funds were £1000m, supply covered orders of 100,000 a year worth £100m, etc.) and a working staff; there was no support between him and the working heads of these services. He spent three or four months each year travelling to principals' countries. He had to delegate and could not himself control banking (less than 1% of the staff) or any other activity. None of this is made clear in the Report. The only way he could control banking was to have an expert colleague to do it.
4. The main contrast between the treatment of Whitehall and that of the Crown Agents by the Tribunal is in Part V. This devotes 14 pages to listing the many requests which Hayes made to the Ministry from 1971 to 1974 for an experienced City Man and the pretexts which the Ministry continually made for rejecting or ignoring them. Yet Hayes is censured (21.44) for failing to ensure financial control with no-one to do it, while the Ministry is not criticised for failing to appoint someone to do it. The Tribunal says "We do not criticise the Ministry" (21.45) apparently on the grounds that Hayes's requests were "confused and inconsistent". Hayes's requests were consistently for a City-experienced colleague -- any official would have recognised that in dealing with an obdurate Ministry he had to dress up the same proposal in different clothing. The Tribunal even says that the appointment of an experienced banker to the Crown Agents in 1971-72 would not have prevented or reduced the losses in 1974 (21.41). If this is really so, then it hardly follows that Hayes should be blamed for failing to prevent them himself; and it is to be wondered at that the Treasury in 1974 insisted on a banker as Hayes's successor and he in turn appointed two more, with the Minister's approval. The effect ~~is~~ of this statement by the Tribunal is to remove criticism from the Ministry/Treasury/Bank for not meeting requests for a



City Man, and indeed for not insisting on such an appointment on their own initiative, given the known nature of the banking business (every transaction was known to the Bank). If, as the Tribunal presumes, the Crown Agents had always been responsible to the Government, then the Government had a duty to ensure that they were appropriately staffed. The Tribunal does not seem to contemplate this.

5. The Tribunal criticises Hayes for failing to make arrangements to control the Finance Department after Challis's departure in October 1973 (21.42) He had been asking for the City Man for over two years; he had asked the Bank to nominate one to the Minister; he had absorbed the post of Director of Finance into the new corporate financial structure which the Minister had accepted, on the advice of the Treasury and Bank who accepted that it was dependant on professional bankers. Hayes told the Ministry at the time that the appointment was now very urgent. There was no-one in the Crown Agents who could oversee the two heads of banking and investment, as the Ministry well knew. Hayes could not make an appointment at this level himself since it would require a bigger salary than his own -- only the Minister could make or approve it. The Tribunal does not indicate what "arrangements" it thought Hayes could have made. But the effect of this criticism is to remove any blame from Whitehall and the Bank for what went wrong afterwards.

6. The Tribunal further condemns Hayes's failure to replace Challis in October 1973 as a lapse from accepted standards (21.44) The Tribunal seems to have accepted without question a statement by two Ministry officials that they thought that Hayes could make any appointment he liked at any salary he chose (21.03) This was not put to Hayes, but to anyone with government experience it is absurd. Whatever the constitutional niceties, no senior officer in the public sector would act in defiance of the Minister, and in fact the Permanent Secretary had told Hayes that if he tried to get someone even temporarily the Minister would see that no-one would accept appointment. It is as if the Commissioner of Police appointed a financial controller at a higher salary than his own when the Home Secretary had refused to authorise the post. The Tribunal's criticism however has the effect of removing blame from the Ministry and Bank for brushing aside Hayes's requests for someone suitable. The documents now reveal that both Ministry and Bank and Treasury were deliberately holding up until Hayes's successor could be selected and consulted, regardless of the results (the time was October 1973 to April 1974, the thick of the financial crisis). They did not tell Hayes this, and it was a year before his successor took office. The Tribunal makes no criticism of this; it wasted a crucial year.

7. The Tribunal goes on to say that the Minister's refusal to meet Hayes's requests for what it calls "assistance" was no excuse for failure to exercise proper control (which again exculpates the Ministry) and that Hayes should have restricted the own account business if he could not control it himself. It seems a strange doctrine that officials can kill the profitable activities of an associated body which alone keep it viable by not allowing it to recruit necessary staff; stranger still since the Stevenson Committee of 1972 had accepted the activity but strongly advised professional management ("governance") and the Minister had announced in the House his acceptance of its report. But again the criticism of Hayes for not restricting the own account activity removes the need to criticise the Ministry and Treasury for not providing "governance" of it.

8. "After the Stevenson Committee reported, the Ministry should have realised that the discussions were not getting anywhere and should have intervened decisively ..." (31.13) The Minister had set up the Committee and was solely responsible for dealing with its report -- it was not a matter of "intervening". For eight months it held meetings with Whitehall and the Bank, all getting nowhere, behind the Crown Agents' back so that the Crown Agents were faced with a wall of silence. The Ministry never sat down with them then or later to work out a policy on the Stevenson report. Its first meeting with them



after eight months was without agenda, a free-for-all with junior officials from Trade, Civil Service Department, Treasury, and Bank at which no proposals were tabled and no conclusions reached. It was accepted that the ideas in the Stevenson Report were unworkable, but the Ministry put no constitutional proposal to the Crown Agents; the solution, incorporation of the banking and investment business under a Crown Agents' Holding Company with a Board appointed by the Minister, which was at once welcomed by the Treasury and the Bank, was worked out and put forward by the Crown Agents themselves when the Ministry had given up. None of this is made clear by the Tribunal, yet Hayes is criticised for rejecting constitutional change and for not being open with the Ministry. (31.05)

9. The Tribunal criticises Hayes for "seeming to harbour the suspicion that Ministry Officials wanted to run the Crown Agents themselves" (19.10) This is one of very many shadings of words in relation to Hayes's evidence. He did have this suspicion, and so did all the Crown Agents' staff, and with reason. "the evidence we have heard does not support this suspicion" (31.05). The evidence is in Hayes's Statement, which was not challenged before the Tribunal, and showed that a Ministry official had taken away one of the Crown Agents' profitable functions in 1966-67, to the lasting resentment of the whole Crown Agents' Office. The Ministry's attempt to transfer this official to be Deputy Crown Agent were seen as furthering this process; and Ministry documents have minuting by officials jibbing at the proposed incorporation of finance business on the grounds that it would upset all their plans. There are later minutes of officials' agreement to appoint one of themselves as new Chairman of the Crown Agents and another as Deputy, ex-officio; this would be absorption of the Crown Agents into the Ministry. Hayes as a former Ministry official also knew the motive for this manoeuvring by some of his former colleagues: protection against being abolished and subsumed by the Foreign and Commonwealth Office, by having wide executive activities other than aid. The absence of reference to this source of friction between Ministry and Crown Agents leaves it open to the Tribunal to censure Hayes for suspicions implied to be baseless, when it was clear that they were well founded.

10. The Bank had <sup>no</sup> direct financial interest in any restriction on or prevention of the Crown Agents' own account banking, but it had such an interest in their banking business for principals. It would stand to get much of this business which the Crown Agents had done for many years, and which was greatly increasing, if the Crown Agents had to stop trading for lack of the reserves which the own account business was meant to create. This factor might have been relevant to the Tribunal's consideration of the Bank's deliberate failure to find or suggest a professional banker for the Crown Agents, but though well documented in the Bank's papers it was not put before the Tribunal.

11. The Tribunal's main criticism of the Ministry is that it did not insist on knowing what the Crown Agents were doing (31.13) Hayes undertook to report what the Minister asked for -- significant new ventures or extensions of existing ones. Apart from a few slips he or his colleagues did report these, but Ministry officials were always complaining that whatever appeared in the press, whatever its significance, had not been reported to them. It was not practicable for the Crown Agents, with a very slim staff, to report daily business; and it is clear that the Ministry did nothing with the reports they got. The Ministry's failure is surely much more fundamental than failing to get information: failure to get down to the Stevenson Report with the Crown Agents; failure to work out a constitutional solution to the Crown Agents riddle; failure to allow Hayes to have a City colleague (he even named a very distinguished one but this was ignored); failure to take any step to appoint the governing Board including financial experts which Ministry and Crown Agents both wanted. The Report greatly underplays these failures to act, while stressing the failure to ask which implies more blame to the Crown Agents.

9 months later



12. The Tribunal in dealing with the Ministry confines any criticisms to the Minister and Permanent Secretary. (19.51) This may place the final responsibility where it should be, but it does not relieve middle officials of responsibility for what they did or failed to do. It was these officials whose motives prevented a cordial relationship between the Crown Agents and the Ministry, and whose minuting now provides the evidence for their attitudes. They kept the Crown Agents at arms' length all the time ("we don't owe Hayes any explanation"); they refused to show the Crown Agents the legal opinion they said they had on HMG liability for the Crown Agents, when not even their Permanent Secretary and still less the Treasury believed in any such legal liability; ~~they also~~ wrote minutes to persuade the Minister that the Stevenson Committee had not recommended what it had, that the Crown Agents' own account banking should continue, and failing to remind him that he had announced his acceptance of this in the House; ~~they also~~ filled their files with personal comments on Hayes which, while these may indicate their attitude, should not be tolerated in any public Department. By ruling out any reference to the actions of these officials the Tribunal leaves a better impression of the Ministry than the facts justify.

13. The Tribunal refers to the Bank warning the Treasury and the Treasury warning the Ministry in 1969-70 that some of the Crown Agents' banking was imprudent (14.56,58) but does not criticise either for not warning the head of the Crown Agents, or suggest that they had any obligation to do so. Yet the Ministry and Treasury officials concerned knew that Hayes was not aware of these occasional transactions. They were friends and former colleagues of his, but nobody whispered in his ear; Hayes's evidence was that he knew that every Crown Agents' transaction was known to the Bank and he took it ~~for~~ granted that anything worthy of concern would be brought to his notice one way or another. But the Bank told the Tribunal that they doubted whether they should have warned Hayes, although they were the Crown Agents' bankers; and the Treasury told the Tribunal that it would have been improper to tip Hayes off (as if etiquette were more important than £85m). Nor did Exchequer & Audit warn Hayes about their doubts (23.24) as if auditors paid by an organisation had no duty of care.

14. The Tribunal criticises Hayes for "continuing to dispute the view that the Government had ultimate ~~liability~~ financial responsibility for the Crown Agents" (15.32) The Tribunal's a priori opinion was that any contingent Crown Agents' liability would have to be met by the Exchequer as a matter of law (14.22) and the proceedings were conducted on this basis. The documents show that neither the Ministry, nor the Treasury, nor the Crown Agents over many years had this view. The Crown Agents were convinced that they were "on their own" since their colonial principals became independent, and this was driven into their soul by the enforced dismissal of over 200 staff in 1961, without help from HMG, when their earnings were not enough to pay them. The Minister was advised by the Permanent Secretary in 1970 that the Government had no responsibility for the Crown Agents; and a long legal study by Treasury officials at the same time concluded that there was no Exchequer liability for them. It can hardly be a criticism of Hayes, with his Ministry and Treasury background, if he shared this opinion, and if he required more than a Ministry official's ~~say~~ say-so to reverse it, with enormous consequences. He did not dispute the view by denying HMG liability. What he did, when Ministry officials said they had legal advice that there was such a liability, was to ask to see it so that the Crown Agents and their own legal advisers could consider it. He asked many times over the next three years but was never shown it; the evidence now shows that the Ministry never had written or authoritative advice on the matter. No criticism is made by the Tribunal of the Ministry's reliance on oral advice from a junior legal official on this fundamental issue, nor for failing to be open with the Crown Agents and having it put in a joint submission to the Law Officers as Hayes asked. Nor is any criticism made of the Treasury for failing to have its own legal opinion on a matter which could and did present a huge bill to the Exchequer. A formal Opinion of HMG liability would have removed the need for the own account business and prevented the whole affair.



15. Hayes is criticised for not being in touch with the situation or finding out whether the Crown Agents were solvent in the months after the Stern crisis in early April 1974. He was not asked about this period. His evidence would have been that after the Treasury meeting of 13 May 1974 he was told by the Ministry to lie low while the Government took charge, and was not told what the Government were doing. Any question of getting outside accountants to assess the position was not for him to consider, though the Tribunal made much of the failure to do so. In fact nothing was being done. "Dame Judith Hart regarded the Crown Agents as her top priority" (20.25) She became Minister on 1 March 1974 when the banking crisis was bursting. She at once cancelled the new constitutional structure of incorporation of banking and investment which the previous Minister had approved six months before and which was being implemented. She announced the appointment of seven Crown Agents and direct control by the Ministry in July, an hour after Dissolution. While this period of five months does not compare with the four years of inaction under the previous Minister, it took place during the worst of the financial crisis, and any action by the Crown Agents was inhibited; the new administration did not take up office until October.

16. The crucial matter from October 1973 until mid-1974, when Challis had left the Crown Agents, they had no-one to control their banking, and the national crisis demanded a firm expert hand to minimise damage and prevent good money being thrown after bad, was Hayes's request to the Governor of the Bank for help in finding an experienced banker whom the Minister could appoint as chief of the new banking company being set up. Hayes also asked the Ministry to support this request. No reply was received from the Bank and no help from the Ministry; meanwhile the Crown Agents were getting more exposed day by day as events got worse. The Tribunal contents itself by saying that it "would have expected" the Bank to tell Hayes that it was deliberately not seeking a banker (21.47). The Tribunal comments that Hayes took no steps himself to find one (21.31), disregarding the fact that he had no entry to the City banking world, and the fact that he had no power to make an appointment himself even if he could find someone.

17. The reason why the Crown Agents had such difficulty over an experienced banker in their top management was that the Chairman's status and salary (Deputy Secretary) were too low in City terms -- and indeed for the greatly increased business and responsibilities which had developed since the principals became independent countries. Hayes's predecessor had made a reasoned case for upgrading the post in 1968. Hayes pursued it in 1969-71, orally with the Ministry, in order to bring in a City Man between himself and Challis, there being no gap for a Deputy Chairman or expert in the existing structure, which had been laid down under the Colonial Office in 1940. He never had a reply from the Ministry, but the documents now show that the Civil Service Department was consulted three or four times, did not examine the Crown Agents' responsibilities or give the Ministry a reasoned reply, but simply repeated that the existing level was adequate. This was held to be binding by the Ministry, although the Crown Agents did not use public funds. In 1973-74 Hayes said that he would be glad to have a City Man at a salary above his own, but the Ministry would not contemplate this either. In 1974 the Head of the Civil Service when faced with the banking crisis said that the Chairman ought to be at Permanent Secretary level and supported by financially experienced colleagues, but it was still a year before this was implemented with Hayes's successor. If the Ministry and Civil Service Department had sat down with the Crown Agents and examined their functions, not only financial but procurement, engineering, philatelic, armaments, etc., there might have been a proper structure years before the banking went wrong. The Tribunal refused to examine the part played by the Civil Service Department on the grounds that it was "too remote".



18. The Tribunal says that witnesses were sent a letter well in advance listing any questions which might result in criticisms of their conduct (1.09); that "each witness was given a fair opportunity to deal with adverse evidence and adverse comments" (1.12); and that it makes no criticism of any witness unless it was certain that the essence of possible criticism was made adequately clear to him before he completed his evidence (1.13). This practice was not observed with the Tribunal's own character criticisms of Hayes or ~~xxx~~ other witnesses' personal comments on him, however ill-conceived which he did not have any opportunity to deal with; his own evidence was very strictly confined to the formal allegations made against him in writing, which did not embody such subjective comments. Yet these comments, made in unsworn evidence to the Fay Committee, are given currency by the Tribunal in a context which did not leave it open to Hayes to question them, or to suggest other witnesses not themselves concerned with the Tribunal's enquiry. For example the Tribunal states Hayes's "unapproachability" as a fact (31.05) and therefore criticises him for not being told what was being done behind his back in the City; it derives from remarks to the Fay Committee, not on oath and not tested by that Committee, by three Crown Agents middle-level officers who did not normally report to the Chairman, but had a duty to report to their superiors and did not do so. The Tribunal says that Hayes had no capacity for readily establishing good relations with his staff, again with the implication that if he had he would have been told what half-a-dozen people in the banking department were carefully concealing from all the rest of the Office; the Tribunal had no evidence on Hayes's staff management or his relations with the 1800 Crown Agents' officers, and other witnesses would have told a different story. The Tribunal says that Hayes resisted attempts to impose new constitutional arrangements on the Crown Agents (31.05); if this had been put to him as an allegation he would have explained that the Ministry never put any constitutional plan to the Crown Agents, that there is no evidence of one in the documents, and that the solution finally welcomed by the Bank and Treasury and ungratefully adopted by the Minister was worked out by the Crown Agents themselves in discussions with their legal advisers and the Bank. The Tribunal even expresses its surprise that Hayes was considered suitable to be appointed Chairman of the Crown Agents in the first place (which is not within its terms of reference); whether or not the Tribunal was in a position to judge the decision fourteen years earlier of the Permanent Secretary of the Ministry and the Head of the Civil Service, both of whom had known Hayes officially for many years, it can have made this judgement only in relation to the Crown Agents' business of which it had some knowledge, and this was one of twenty main activities occupying a handful of staff and not concerning their primary responsibilities towards their overseas principals. The personal and character comments in the Report are confined to Hayes. Yet the documents contain ample evidence of hostile attitudes towards Hayes and the Crown Agents on the part of Ministry officials, and one or two in the Treasury, some of them scurrilous; the Tribunal has not taken note of these. There are no such personal comments on Ministry officials in the Crown Agents' files. By excluding consideration of officials below Permanent Secretary and ignoring their official ~~minuting~~ the Tribunal has given the impression that their activities and attitudes were implicitly justified and above reproach, in stark contrast to the Tribunal's subjective assessment of Hayes which is not evident in the documents.

19. There are many other minor indications in the Report of an attitude towards Hayes very different from that towards Ministers and officials. It often understates the Crown Agents' intentions or appears to reflect on them, by the use of words implying more than is said. An example is (23.55) "(The Treasury asked for but were) denied a sight of the Crown Agents' evidence" to the Stevenson Committee; the Crown Agents did indeed object to their written evidence being passed to Government Departments but no reverse traffic, but told the Treasury that it could have any information it wanted about the Crown Agents by asking for it separately (which it did not do). Another example is (21.39) "Hayes rejected completely the opportunities offered him by the



Ministry for administrative support"; this, apart from ignoring his need for financial support, brushes over the fact that the support offered was the transfer to the Crown Agents of the Ministry official who had incurred the anger and suspicion of senior Crown Agents' staff by removing one of their functions when they could least afford to lose it, to be put over their heads — something that no head of an organisation could accept in the interests of good management and staff loyalty. A third example (25.24) is "Hayes's views (on giving evidence to a Select Committee) affected the Crown Agents' response to the Committee's requests for information" with the implication that he withheld facts from the Committee, and in particular that he refrained from volunteering the opinion that the Minister's Answer to a Question in the House some weeks earlier had been wrong. What Hayes had said to his officers was that replies to a Parliamentary Committee should be concise, precise, and complete, but that information outside the scope of questions should not be volunteered; an experienced civil servant would recognise this as "standing orders", and would know that it is by no means simple for someone outside the Minister's staff to tell a Select Committee that he had given an incorrect Answer to the House even if this were clearly so (in this case it was not). There are other examples of words implying more than they say in relation to Hayes, though not to others.

20. The Tribunal could not quote the evidence on which it relied in its report, still less that which it apparently rejected. That justice has been done has to be taken for granted; it cannot be seen to be done unless the report is checked by someone with a knowledge of the events of the time, of the personalities, and of the huge mass of documents and transcripts. There are many factors whose inter-relationship turns on the characters of those concerned, on which the Tribunal had no evidence: a small Crown Agents group concealing from everyone its "comfort letters" and panic lending, a small group of officials never frank with the Crown Agents and with ulterior motives, Government departments and Bank deciding not to warn Hayes of misdeeds which they knew or suspected. But the failings were not merely those of not seeking more information or of government machinery for co-ordinating Ministries; they were failings to understand and accept what the Crown Agents needed in a post-colonial world, and to set about seeing that they got it. They were the failing of complete inaction for years, and no amount of criticism of the Crown Agents offsets this. The Tribunal's mild reprimands of the Ministry and strong condemnation of Hayes for not doing what he had no experience to do (control the banking himself) or power to do (appoint a City Man himself) suggest that the real failings within the public service have not been identified. Is it a balanced report which makes many subjective criticisms of one witness without taking or testing evidence for them, while passing over in silence written evidence showing less than proper actions and motives on the part of officials dealing with him? Is it just that the Tribunal personalises every Crown Agents' action in Hayes, when there is much evidence that he was meticulous in consulting his "Board" of senior colleagues and never went against them? Is it really likely that an experienced banker in the Crown Agents' management in 1971 or 1972 would not have stopped the banking section from making bad loans in 1973-74? This statement by the Tribunal was not made while it was sitting, but it seems eminently a question for the Tribunal's own expert banking witness, a former Chief General Manager of a clearing bank; but the effect of it is to absolve the Government from blame for not seeing the Crown Agents properly staffed. Would someone with experience of commercial management expect Hayes to check for himself the transactions of a section three or four levels below him? All this is not to say that the Crown Agents were not grievously at fault, and Hayes with them; but it does say that not enough direct responsibility is clearly placed on particular Ministers and officials for doing nothing. Sir Andrew Cohen would have solved the whole issue within three months of the Stevenson Report of March 1972.



File

Gork Mach.

85

15 September 1982

PERSONAL

CROWN AGENTS TRIBUNAL

Thank you for sending me the letter which you had circulated to everybody at Assistant Secretary level and above in the Treasury. I think it a very valuable letter and am very glad to have a copy.

E. E. R. BUTLER

Sir Douglas Wass, G.C.B.,  
H.M. Treasury.

15



PERSONAL: IN CONFIDENCE



H M Treasury

Parliament Street London SW1P 3AG

Switchboard 01-233 3000

Direct Dialling 01-233 .....

Sir Douglas Wass GCB  
Permanent Secretary

F E R Butler Esq  
10 Downing Street  
SW1

13 September 1982

*Dear Robin.*

**CROWN AGENTS TRIBUNAL**

Although it is not of immediate relevance to you at present, I thought I should let you see the enclosed text of the letter which I am sending to all staff at Assistant Secretary level and above currently working in the Treasury.

*Yours ever,  
Douglas*

**DOUGLAS WASS**

PERSONAL: IN CONFIDENCE





## H M Treasury

Parliament Street London SW1P 3AG

Switchboard 01-233 3000

Direct Dialling 01-233 .....

Sir Douglas Wass GCB  
Permanent Secretary

13 September 1982

## LESSONS OF THE CROWN AGENTS AFFAIR

Since the Crown Agents Tribunal reported in May I have been thinking about the lessons which the events covered by its report have for us all. Much of the criticism made by the Tribunal of those who were involved is directed to specific acts of commission and omission. But running through the report is an implication that the methods of working of, and the assumptions made by, officials in all departments contributed to the situation which finally led to the Crown Agents' making of their large financial losses. Reading the report I was left with a vague unease that those working methods and assumptions might have become so endemic in us all that, unwittingly, we might be allowing other situations and problems to develop which would have consequences comparable to those experienced by the Crown Agents. I do not want to suggest that our style of work has become slack. I do not believe that for a moment. But I do think that from time to time the speed at which we work and the conventions we accept expose us to risks and dangers we should avoid if we possibly can. I thought I would set out in writing the sort of thing I had in mind, in the hope that it would be helpful to you. I am, I may say, writing a similar letter to all my Treasury colleagues at Assistant Secretary level and above; so there is absolutely nothing personal to you in what I am saying.

The first of the general lessons I draw from the report is that we should always be on our guard against what I might call excessive informality between ourselves and those we deal with in other organisations. I am of course in favour of a degree of informality and would not like to turn the clock back half a century to the time when all communications took the form of official "top hat" letters. But when it is necessary to communicate a precise piece of information or instruction, there is much to be said for doing so in an orderly way and for recording what has been said. One of the problems identified by the Tribunal was that communications between the Treasury and the Bank were vague and ambiguous on certain matters. Likewise we may not ourselves have made crystal clear to the ODA what we expected them to do. Assumptions were made about the behaviour of others (which were perhaps at the time legitimate enough) but which were not borne out in practice.



I do not want to labour the point to the extent of saying that it is a good idea to record the content of every conversation we have with another body. But where business is transacted to which we may want to refer in the future, we should always note the file; and it is not a bad idea to make sure that the other party has a copy of the record too. I need hardly say that clarity and definition are important in all written communications. Both parties should know precisely what information has been imparted and what decision reached.

The second lesson is that it is a good idea to understand (and indeed define for the benefit of third parties where necessary) what our responsibilities are. I found when I gave evidence to the Tribunal on behalf of the Treasury that it was very difficult to describe what our "responsibility" was. Most of us are posted to our jobs without being given a clear remit or a clear definition of what is required of us, and we tend to work our responsibilities out for ourselves. This makes it all the more important that when situations like the Crown Agents develop, where one party appears to be thinking that we have a responsibility which we do not ourselves accept, we should not hesitate to make our position absolutely clear. By the same token we should always be on the qui vive for situations which lead to our being given a responsibility without our being fully aware of what we have acquired. For instance, when we are vested with a power to do something, it is a pretty safe bet that we have acquired a responsibility for the consequences of not doing that "something". This may strike you as a pretty by-and-large and possibly unhelpful piece of advice because it is so general. I accept this; but I would suggest that you reflect on what I say whenever ambiguous situations develop.

Thirdly, I think it crucially important that we in the Treasury be on the ball wherever financial responsibility or financial policy is concerned. This cuts both ways. Just because finance is involved it does not follow that the Treasury has the prime responsibility. The Accounting Officer of the Vote (if Government expenditure or guarantee arises) must assume prime responsibility. But we cannot wash our hands of our responsibility however difficult it may be to define. For this reason, if we are dissatisfied with the financial policy being pursued by a particular institution which may involve, however contingently, a call on public funds, we should not shrink from voicing our dissatisfaction nor should we fail to do whatever we can (including the mobilising of Treasury Ministers) to get that policy changed. We must at all costs avoid shrugging the matter off, on the grounds that the organisation is difficult to move or that it resents our interference.

This brings me to my last point and it is this. The Crown Agents affair is a sorry story of difficult individuals who refused to co-operate with us and to do sensible things, particularly in the financial field. Awkward individuals (and sometimes indeed very affable individuals) can make life exceedingly difficult for us in the carrying out of our duties. We must not let their awkwardness or their affability stand in the way of our doing what we believe to be right.

I am sorry that this letter reads like an homily and I hope that you will forgive me for appearing to preach. I have no reason to suppose that you (or anyone else) are not acting in accordance with the principles I have described. But I do want everyone - for their own protection - to be aware of the banana skins which lie in the way of Treasury officials.

I shall be considering whether all this might be enshrined in a more formal code. But for the moment I am content for you to regard this letter as simply a word to the wise.

DOUGLAS WASS





FILE

SW

Sort made

10 DOWNING STREET

*From the Private Secretary*

26 May, 1982

The Prime Minister will this afternoon, in answer to a Question from Mr. Anthony Grant, announce the publication of the Report of the Tribunal of Inquiry into the Affairs of the Crown Agents in the period 1967-74.

Arrangements have been made for advance copies to be sent to those individuals whose own actions in the period were considered by the Tribunal. Copies have also been made available to former Ministers who held office in Departments with some responsibility for these matters at the time in question.

As these arrangements mean that several senior Labour Members of Parliament will have advance copies of the Report, the Prime Minister thought that it might be helpful to Mr. Foot to receive one. I now enclose it.

M. A. PATTISON

Sir Tom McCaffrey



E.P.

1.

PRIME MINISTER

Crown Agents

You looked at the arranged Q&A over the weekend.

As we expected, you are now recommended to include a reference to the 1979 Crown Agents Act. The suggestion is that this should be in an expanded penultimate paragraph. The amended version is now included in the attached copy of the answer. Below it is Robert Armstrong's note explaining the amendment.

Agree the revised answer?

MA

24 May 1982

na  
MA 27/✓





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MR. PATTISON

Crown Agents Tribunal

With my minute of 19th May I attached a draft Question and Answer for Wednesday, 26th May. As you noted in your minute of 24th May, a further addition has been under consideration.

2. The point here is that the present chairman of the Crown Agents Mr. Sydney Eburne is concerned that the publication of the report and the resurrection of the old affair could damage the confidence of overseas principals on which the Crown Agents depend for their business. It has been suggested that the Answer should include a reference to the Crown Agents Act 1979, which now governs the current operations of the Crown Agents and which is intended to preclude any recurrence of the events described in this report.

3. I am a little chary of suggesting an addition which implies that the enactment of the 1979 Act has definitely precluded any recurrence of the events described, although we obviously think and hope that it has. But I think that a specific reference to that Act in the Prime Minister's Answer would help to minimise the risk of damage to confidence, and would provide a peg on which more detailed briefing of the Press as to the effects of the 1979 Act could be founded.

4. I therefore recommend that the penultimate paragraph of the Answer should be amended as follows:-

"The Government will now study the Tribunal's findings in greater detail. It will look closely at the criticisms made, and in particular at those of the institutions and procedures examined by the Tribunal, to see whether the changes that have taken place since the events of 1967-74 (including the enactment of the Crown Agents Act 1979, which now governs the current operations of the Crown Agents) are sufficient to prevent the risk of repetition, and if not what action now needs to be taken."

*Answer  
MS ✓*

*RA*

Robert Armstrong

24th May 1982

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1.  
PRIME MINISTER

(through <sup>MUS</sup> MCS)

Crown Agents

Elsewhere in your box, you will have seen the draft Written Answer announcing publication of the Report, together with the briefing.

There may be one substantive addition to the draft. It has been suggested that there should be a couple of sentences in the actual Answer making it clear that these kind of events should not recur, as the Crown Agents were entirely reconstituted by the 1979 Act.

I am sure that it is sensible to spell this out, since only a small number of MPs have closely followed the entire history of the subject over the past ten years. But there is still some discussion between Departments about how best to deal with the point. It will be resolved in the course of Monday.

Sir Robert Armstrong's earlier minute set out the timetable for making available the Report to various individuals with an interest. This had been expressly approved by the Home Secretary. We are now told, in Sir Robert Armstrong's minute below, that Lord Barber and Mr. Healey have been added to the list of those who should get advance copies. It is suggested that we might therefore send one to Mr. Foot.

I am sure that this is sensible. Both Judith Hart and Denis Healey on his Front Bench team will get them. In transmitting a copy to Mr. Foot, we will make it clear that this is a courtesy because other Labour Front Benchers are receiving it for personal reasons; and that it is not a sign that you expect the Report to be the subject of immediate Parliamentary controversy.

Agree to let Mr. Foot have an advance copy?

Yes not

MFD

21 May 1982





Ref. A08494

MR PATTISON

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Report of the Crown Agents Tribunal

As I made clear in my earlier minute, advance copies of this report are to be given to individuals affected at 4.30 pm on Tuesday 25th May and to the press at 9.30 am on Wednesday 26th May, before publication at 3.30 pm on 26th May.

2. However the report covers the actions of the Treasury during the periods when Lord Barber and Mr Healey were Chancellors of the Exchequer, and the Treasury have apparently committed themselves to making advance copies of the report available to Lord Barber and Mr Healey when they are being made available to the press and to witnesses. There is no criticism of Lord Barber or Mr Healey in the report and we do not think that it is necessary to send them copies on the Tuesday evening. It is therefore proposed to make their copies available at or after 9.30 am on Wednesday 26th May.

3. If Mr Healey is getting his advance copy on Wednesday morning, I suggest that an advance copy should be sent at about the same time to the Leader of the Opposition, Mr Foot, making it clear that the copy is personal and confidential to him until publication at 3.30 pm. Although reasons for sending an advance copy to Mr Healey relate to his former position as Chancellor of the Exchequer rather than to his present position as Deputy Leader of the Opposition, there seems to be nothing to be gained by holding Mr Foot's copy back until later in the day.

RET

ROBERT ARMSTRONG

21st May 1982



**CONFIDENTIAL**

Prime Minister

①

Ref. A08465

MR. WHITMORE

*I really think that those who are named should have been advised in advance.*

*With the Home Secretary's agreement*

*We have gone ahead with the timetable recommended below.*

*Yes -> Agree the draft answer? (at A)*

*-> Agree the line to be taken with the Press including that at 4(ii) below?*

*MCS 21/5*

In your minute of 14th May you told me that the Prime Minister was content to answer a Written Question on this subject on Wednesday 26th May.

2. I now attach a draft Question and Answer. If the Prime Minister approves the Answer, perhaps you will arrange for the Question to be tabled. The Question should be put down for Written Answer on Wednesday 26th May; if it could be put down on Friday 21st May (to appear on the Order Paper of 22nd May), the publication of the Question would alert Parliament to the Report's forthcoming publication at about the same time as information about publication is given to the individuals involved in the Tribunal's inquiries.

3. I assume that the No. 10 Press Office will be responsible for giving background guidance to the Press about the Report, and for co-ordinating the line to be taken by the Press Offices of the Departments concerned. A brief for this purpose, and a background note, are also attached.

4. I should like to be sure that the Prime Minister is content with the line suggested on two points in particular:

(i) The Report will be published at 4.00 pm on Wednesday 26th May.

Confidential Final Revises (CFRs) will be released to the Press at 9.30 am that day. We have considered when CFRs should be made available to the 75 individuals who were warned that their part in the affair was liable to be the subject of the Tribunal's examination (including the 35 who are the subject of adverse comment). We think that they should be able to see CFRs no later than they are released to the Press, and it seems right that they should be given a little longer than that to read what the Report says about them and to consider their positions (if necessary consulting their legal advisers) before the Report is published. Accordingly we recommend that CFRs should be available to those people on a strictly personal basis about 24 hours

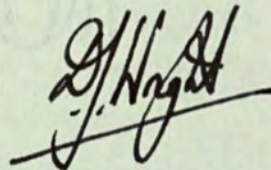
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before publication, from 4.30 pm on Tuesday 25th May. There is a small risk of a leak in the morning papers of 26th May, if one of them disregards the embargo and takes his copy to the Press, but we think that the risk is not great and worth running in order to ensure that those who are the subject of adverse comment have a reasonable (and by no means excessive) amount of time in which to consider their positions.

- (ii) Only one civil servant still serving is the subject of adverse comment in the Report. He is Mr. F.R. Barratt, a Deputy Secretary in the Treasury; he is criticised, but the Tribunal did not find that he had lapsed from accepted standards. Sir Douglas Wass and I believe that disciplinary action against him would not be appropriate, and that it is right, and only fair to Mr. Barratt, to make this clear at the outset. This is the inwardness of the last sentence of the answer to Question 5 in the main Press briefing.



ROBERT ARMSTRONG

(approved by Sir R. Armstrong  
and signed on his behalf)

19th May, 1982

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Crown  
Agents

CROWN AGENTS TRIBUNAL

MAIN NOTE FOR PRESS BRIEFING

1. Will there be a debate?

The Government will certainly be ready to consider one.

2. Fairness of the Tribunal's procedure - what remedy have people criticised to clear their names?

The Tribunal are responsible for their findings and their criticisms. Individuals who consider the findings in the Report unfair can make their views known to the Government, and the Government will take them into account in considering the report. I cannot go beyond that today.

3. Fairness of the Tribunal's procedure to individuals?

The Tribunal were asked to follow the "Salmon principles" as far as possible, ie the principles recommended in 1966 in the Report of the Royal Commission on Tribunals of Inquiry chaired by Lord Salmon (Cmnd 3121). They felt compelled by the nature of their inquiry to depart from these in some particulars. The Tribunal clearly gave much thought to procedure and the Government will examine the views and findings they have set out in their report with great care.

4. Unfair to allow individuals criticised only a short time to study the Report before publication?

The Report is presented to Parliament. It seems right to give people criticised in a report of this kind some advance notice of that fact. But they, like the Government, will need to consider in depth what the Report says - which must be done after the Report has been published.



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given to Parliament, not before.

5. Action against officials who are criticised in this Report?

One consequence of having proceeded through a Tribunal set up under the 1921 Act, as the then Prime Minister (Mr Callaghan) made clear when he announced the Tribunal on 8 December 1977 (Hansard 12, 1646-47), was that it effectively prevented criminal proceedings from being taken against witnesses. Disciplinary proceedings could only be taken by the Government against those still in its service and most of the people involved have now retired. No civil servant still serving is found to have lapsed from accepted standards, and the Report discloses no reason for taking disciplinary procedures against any serving civil servant.

6. Action over the pensions of those criticised?

Unless they are found guilty of certain criminal offences, former public servants cannot be made to forfeit their pensions.

7. Why were witnesses granted immunity from criminal proceedings?

The then Attorney General authorised the Tribunal to say that evidence given to it by witnesses (including documents) should not be used in any criminal proceedings against the person giving evidence unless those proceedings related to the giving of false evidence before the Tribunal. This was done to enable the Tribunal to obtain all the material evidence it needed and look thoroughly into all those issues of considerable public concern. An assurance of this kind effectively removed from a witness any right he might otherwise have to refuse to answer the question on the grounds that the answer might incriminate him. It is only by taking this step that



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the truth could be wholly uncovered. As the Tribunal say in their Report (Note paragraph 15) "It is a question of balancing one public interest against another". Immunity from civil proceedings could not be, and was not, granted.

8. Have the Crown Agents been re-organised?

Yes. The Crown Agents Act 1979 established two corporate bodies separating traditional activities from the holding and realisation of the assets acquired on own account. These bodies have a clear legal status and their functions and the powers of the Minister (Secretary of State for Foreign and Commonwealth Affairs) are defined. The basic constitutional position is now quite clear and the Crown Agents relate to Government on a basis broadly comparable with that of other public corporations. Progress has been made on the financial position of both bodies, as has been announced in recent months by the Minister for Overseas Development.

9. What action has the Government taken to ensure that what went wrong in relation to the Crown Agents cannot be repeated elsewhere?

The Treasury, in consultation with sponsor departments, made a thorough and critical examination of all other organisations and situations which might have involved the kind of risks which were present in the Crown Agents situation. Action was taken where it was found to be necessary, and the Treasury also clearly registered with all departments the lessons to be learnt from the Crown Agents affair, with the object of avoiding any recurrence of the mistakes that were made in that case.

10. How much did this Report cost? Was it justified?

The inquiry cost about £2.5m, of which a large part represents the costs of legal representation. This was an inquiry of exceptional scale and complexity, the events



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investigated covering seven years and many subjects and as many as 75 people being at risk of coming under criticism. Inquiries held under the 1921 Act are necessarily formal, and procedures accordingly cost more than those of less formal inquiries.

11. How much did the Crown Agents lose?

The accumulated deficit shown in the 1976 Crown Agents' Realisation Accounts was some £212 million. The Crown Agents Holding and Realisation Board's accounts for the end of 1981, which are in the process of being audited, are likely to show a reduction of this accumulated deficit to about £140 million. At present the sale of most of CAHRB's assets, property in Australia, is being negotiated. [See ODA Press Release of 8 April 1982]

12. How much did HMG lose?

HMG paid to the Crown Agents in 1974 and 1978 recoverable grants totalling £175 million which were written off by the Crown Agents Act 1979. Against this has to be set the Crown Agents commencing capital debt to Government of £30 million (over £9 million already repaid), other payments by them to Government totalling almost £5 million, and an expected net return to Government of about £10 million arising from the recent agreement of the Crown Agents Holding and Realisation Board to sell their Australian property holding company.

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## BACKGROUND BRIEFING

### A. THE TRIBUNAL

#### I. Terms of Reference

1. The Tribunal was set up in 1978 under the Tribunals of Inquiry (Evidence) Act 1921. Its terms of reference were to inquire:

'To what extent there were lapses from accepted standards of commercial or professional conduct or of public administration in relation to the operations of the Crown Agents as financiers on own account in the years 1967 to 1974 described in the report of the Committee of Inquiry on the Crown Agents (The Fay Report, HC 48 of 1977).'

The Chairman of the Tribunal was the Hon Mr Justice Croom-Johnson, and the other members were Lord Allen of Abbeydale and Sir William Slimmings.

#### II. Fay Committee

2. The Committee of Inquiry under Judge E S Fay was set up in April 1975 'to inquire into the circumstances which led to the Crown Agents requesting financial assistance from the Government'. In December 1974, the Government had made available £85m of public money together with standby facilities of £50m arranged with the Bank of England. A further grant of £90m was made in 1978. The Fay Committee's report was published on 1 December 1977. It is that report which is mentioned in the Tribunal's terms of reference, and the debates on it in Parliament led to the establishment of the Tribunal.

#### III. Issues Investigated

3. The main issues investigated were:-
  - the way in which the Crown Agents came to operate as financiers on own account
  - the main transactions which led to the ultimate losses
  - internal control over the own account activities



- the impact of the financial crisis of 1974 on the Crown Agents
- the part played by Government departments and the Bank of England in supervising the Crown Agents' activities and considering their future status and accountability.

#### IV. Cost of the Tribunal

4. The total cost of the Inquiry was of the order of £2.5m. A large part of this total represents the costs of legal representation.

5. The Crown Agents Inquiry has been unique in its scale and complexity, the events investigated spanning 7 years and many subjects. As many as 75 persons were at risk of being criticised. Inquiries held under the 1921 Act are necessarily formal in their character, and their procedures are inevitably more costly than those of enquiries less formally conducted.

6. Legal representation costs, and fees paid to members of the Tribunal, are met from the Law Charges Vote and are borne by the Treasury Solicitor's Department. Accommodation costs will be borne by the Department of the Environment and staff costs by the Departments which have loaned staff to the Tribunal.

7. Witnesses' Costs - The Government authorised the Tribunal to recommend the payment from public funds on an ex gratia basis the reasonable costs of individuals in respect of legal representation. A number of such recommendations have been made, but it is not the practice to disclose details relating to particular witnesses. The 1921 Act is silent on this question, and it has been the practice to deal with it administratively.



B. CRITICISMS AGAINST INDIVIDUALS

I. Those criticised

8. The Tribunal's findings are particularly directed at Sir Claude Hayes (Senior Crown Agent, October 1968-September 1974) and Mr A H Challis (Director of Finance, Crown Agents 1968-1973), who are found responsible for a number of serious lapses or lapses. One person, Mr Wheatley, former sterling money market manager in the Finance Department, (died in July 1977) is found to have acted corruptly. In addition, serious lapses or lapses are found against a further 7 individuals from the Crown Agents; 4 of the Crown Agents associates; 3 staff from Davies, Arnold and Cooper (Solicitors dealing with the Crown Agents); one former Minister of Overseas Development (Lord Holderness); 4 former ODM officials; 1 former Treasury official; and 2 former Bank of England officers. Some of these are also criticised. There are criticisms (falling short of lapses) of 2 individuals from the Crown Agents, one former Minister of Overseas Development (Dame Judith Hart), one former ODM official; 2 former Treasury officials; one serving Treasury official; one former Bank of England officer and two former E & AD officials. (The text of the criticisms against Lord Holderness and Dame Judith Hart is attached at Annex A.)

II. Disciplinary Action/Pension Forfeiture

9. Witnesses before the Tribunal were granted immunity from criminal proceedings. With one exception the civil servants who were criticised have now retired. Disciplinary action could only be taken against those still serving. The superannuation benefits of retired civil servants can only be withheld in whole or in part if they are convicted of certain offences which are not in issue in this case.

III. Fairness of the Procedures

10. Certain witnesses have expressed dissatisfaction over what they consider to be the failure of the Tribunal to follow the six cardinal principles recommended by the Salmon Commission on Tribunals of Inquiry. These principles, which are outlined at Annex B, were endorsed by the then Government in a White Paper published in 1973 and also by the then Home Secretary in moving the establishment of the Crown Agents Tribunal in the House of Commons on 28 February 1978. The experience of the Crown Agents Tribunal has led it to comment on the practicabilities of these principles.



11. The Tribunal sought to comply with the second cardinal principle - that witnesses should be informed in advance of the allegations against them and the evidence for these - by issuing letters to witnesses listing the questions they were likely to be asked and by supplying the entire evidence to them. However, a number of witnesses felt that they were not informed adequately in advance of criticisms of their conduct and were not therefore given sufficient opportunities to furnish the supporting evidence. The Tribunal also found it necessary to modify the application of the principle relating to the oral examination of witnesses. The Tribunal has explained why it found it necessary to depart from the principles, and where they did not seem appropriate. The Government will examine its procedural suggestions with great care.



The criticism (lapse) of Lord Holderness - paragraph 19.47

"We consider that the respects in which Lord Holderness' conduct was defective were:-

- i. Despite knowing that the Stevenson Committee regarded urgent interim action as necessary and that a long-term solution was likely to take some time to implement, he did not require the Crown Agents to provide information to the Ministry on their existing own account activities and commitments, as well as on new ventures. As a result, these activities continued unmonitored and future policy was formulated in ignorance of the true situation.
- ii. He did not intervene to impose a solution when it became apparent that the talks with Sir Claude Hayes were not getting anywhere.
- iii. He adopted arrangements for the Crown Agents which did not provide adequate control over their activities or adequate protection for the interests of the Government, and which did not remedy the defects identified by the Stevenson Committee or comply with the requirements which he had himself laid down.

We consider that cumulatively these defects amounted to a lapse from the standards to be expected of a Minister occupying the position he held."

The criticism (criticism) of Dame Judith Hart - paragraph 20.115

"Dame Judith was informed by her officials of the outcome of the meetings on 13 May, but did not see either the minutes or Mr Hewins' rough balance sheet.



THE SIX CARDINAL PRINCIPLES

- i. Before any person becomes involved in an Inquiry, the Tribunal must be satisfied that there are circumstances which affect him and which the Tribunal proposes to investigate.
- ii. Before any person who is involved in an Inquiry is called as a witness he should be informed of any allegations which are made against him and the substance of the evidence in support of them.
- iii.
  - A. He should be given an adequate opportunity of preparing his case and of being assisted by legal advisers.
  - B. His legal expenses should normally be met out of public funds.
- iv. He should have the opportunity of being examined by his own solicitor or counsel and of stating his case in public at the Inquiry.
- v. Any material witnesses he wishes called at the Inquiry should, if reasonably practicable, be heard.
- vi. He should have the opportunity of testing by cross-examination conducted by his own solicitor or counsel any evidence which may affect him.



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Nevertheless she knew that the Crown Agents' position was serious enough to require the Government to stand ready to give an open-ended guarantee. She should have appreciated the need to find out more about their finances, especially in the light of the Bank's doubts about the soundness of their balance sheet which should have caused her to think about their solvency. It was not enough to assume that her officials would make whatever enquiries were necessary; she should herself have asked questions. We criticise her failure to do so, but we recognise that she was not adequately briefed by her officials either about the Crown Agents' finances or about the action required to investigate them, and we do not consider that her conduct amounted to a lapse."

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CROWN AGENTS TRIBUNAL

FOR WRITTEN ANSWER, WEDNESDAY 26 MAY

: To ask the Prime Minister, whether she will make a statement on the Report of the Tribunal of Inquiry on the Crown Agents.

THE PRIME MINISTER

The Report of the Tribunal of Inquiry on the Crown Agents has been published today.

The Crown Agents were deeply involved in the property and secondary bank failures which took place in 1974-75, with the result that large sums of public money had to be made available to enable them to meet their liabilities.

Following the report of the Committee of Inquiry under the chairmanship of His Honour Judge Fay, the Tribunal was set up in 1978 by the previous Government under the Tribunals of Inquiry (Evidence) Act 1921 to enquire into the extent to which there were lapses from accepted standards of commercial or professional conduct or of public administration in relation to the operations of the Crown Agents as financiers on own account in the years 1967-74.

The Tribunal has examined the issues very thoroughly and the Government would like to express its gratitude to the Chairman, Mr Justice Croom-Johnson and to his colleagues Lord Allen of Abbeydale and Sir William Slimmings for all the time and work they have put into examining these events.

The Tribunal's report is long and detailed. Five main issues are examined:-



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- i. The way in which the Crown Agents came to operate as financiers on own account;
- ii. the main transactions which led to the ultimate losses;
- iii. internal control over the own account activities;
- iv. the impact of the financial crisis of 1974 on the Crown Agents;
- v. the part played by Government Departments and the Bank of England in supervising the Crown Agent's activities, and in considering their future status and accountability.

// In looking at these issues, the Tribunal has identified a number of serious shortcomings that existed at that time, not only in relation to the conduct of individuals, in respect of some of whom lapses or criticisms falling short of lapses were formally specified, but also in relation to the operation of institutions and procedures. The Tribunal has drawn some general conclusions about the causes of these shortcomings. Those conclusions are based on the findings on specific issues given in the main body of the Report, and need to be considered in that context.

The Government will now study the Tribunal's findings in greater detail. It will look closely at the criticisms made, and in particular at those of the institutions and procedures examined by the Tribunal, to see whether the changes that have taken place since the events of 1967-74 (including the enactment of the Crown Agents Act 1979, which now governs the current operations of the Crown Agents) are sufficient to prevent the risk of repetition, and if not what action now needs to be taken. ३

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The Government will also consider the Tribunal's comments on the recommendations of the Royal Commission on Tribunals of Inquiry on the procedure to be followed in inquiries carried out under the 1921 Act.

CONFIDENTIAL



CONFIDENTIAL



10 DOWNING STREET

From the Principal Private Secretary

*Gov Mack*  
*Lee LBO*

*r.n.a.*  
*MAR*  
*M Cotton*  
            
*To run*

*ML*  
*14v1*

SIR ROBERT ARMSTRONG

REPORT OF THE CROWN AGENTS TRIBUNAL

Thank you for your minute A08440 of 14 May 1982 about the arrangements for the publication of the Report of the Crown Agents Tribunal.

This has crossed with my minute of earlier today to you (not copied to copy addressees of this minute) in which I told you that the Prime Minister was content to answer a Written Question on Wednesday 26 May. I think that we should stick to this date, since I share your doubts about making the introductory statement on Thursday 27 May and publishing the Report on Friday 28 May.

I am sending copies of this minute to the other recipients of yours.

C. A. WHITMORE

14 May 1982

CONFIDENTIAL

*A*



CONFIDENTIAL



2u AH

10 DOWNING STREET

*From the Principal Private Secretary*

SIR ROBERT ARMSTRONG

CROWN AGENTS TRIBUNAL

I have shown the Prime Minister your minute A08410 of 13 May 1982 about the Parliamentary announcement of the publication of the Report of the Crown Agents Tribunal. She would like to publish the report as soon as possible and to announce its publication by a written Answer.

I should be grateful if you could let me have the draft of an Answer which the Prime Minister would give to a written Question on Wednesday 26 May.

AMW

14 May 1982

CONFIDENTIAL

AH



CONFIDENTIAL



Ref. A08440

MR. WHITMORE

cc Sir Douglas Wass  
Sir Brian Cubbon  
Mr. Cassels  
Mr. Kerry  
Mr. Peterson

Report of the Crown Agents Tribunal

I sent you a minute earlier this week about the arrangements for publication of the Report of the Crown Agents Tribunal, and in particular the associated oral or written statement.

2. Since I sent you that minute, I have learnt that there would be certain practical advantages in not publishing the Report before Thursday 27th May. This would mean that the introductory oral or written statement, which is to be given 24 hours in advance, should be not earlier than Wednesday 26th May. The introductory statement could be deferred until Thursday 27th May and the Report published on Friday 28th May, if that were thought preferable; but it might be thought objectionable that the Report should be published on the day that the Whitsun Recess is due to begin.

ROBERT ARMSTRONG

*(dictated by Sir R. Armstrong  
and signed on his behalf)*

14th May, 1982

CONFIDENTIAL





10 DOWNING STREET

Clive

We spoke about this yesterday.  
We might get away with a  
written answer. If we are to  
do so, I need to be able to  
confirm timing to the Home  
Office tomorrow, so that the  
massive document can be  
printed with the correct  
laying date.

If we do not decide  
tomorrow, we may remove the  
option of publication before the  
Recess.

Prime Minister.

MA 13/4.

Agree to a  
written answer just  
before the Recess?

13.v.82. JML



Ref. A08410

MR WHITMORE

Crown Agents Tribunal

<sup>4.5.82</sup> I ~~minuted~~ you recently proposing Tuesday 25 May or Thursday 27 May for the publication of the Report of the Crown Agents Tribunal, to be announced in Parliament by means of an oral statement by the Prime Minister.

2. You have told us, and I fully understand, the difficulties you see about this. This minute is to explore other ways of handling the matter. There is a strong case for publishing this Report before the Whitsun Recess if possible. The Home Secretary told Parliament in a written answer at the beginning of April that the Report had been received, and the Government could be criticised if there is a longer delay in publishing it. Further delay increases the risk of a leak; and is also very tough on those who are named in the Report.

3. I recommend therefore either an oral statement before the Recess by another Minister, or a written answer by the Prime Minister. If we go for an oral statement, the Home Secretary (the Secretary of State who appoints the Tribunal and to whom its Report is submitted) would seem the obvious choice. But an oral statement by the Home Secretary could encounter, if perhaps to a less extent, the same difficulty of the continuing Parliamentary activity over the Falklands crisis, and might also draw criticism on the Prime Minister for not handling this Report herself. I have not consulted the Home Secretary about this.

4. The alternative is for a written Parliamentary answer by the Prime Minister, perhaps on Wednesday 26 May, which could be duplicated in the Lords. I should not in normal times recommend a written answer as a means of announcing the publication of this Report, but these are not normal times, and the statement will only announce publication and will not comment substantively on the Report. A written answer would have the advantage of avoiding supplementaries and further immediate exchanges in Parliament on a Report on which the Government needs time to decide its fuller response.

5. Whichever the Prime Minister agrees, we will submit a draft nearer the time.

*RA*

ROBERT ARMSTRONG

13 May 1982



Ref. A08410

MR WHITMORE

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Crown Agents Tribunal

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5. Whichever the Prime Minister agrees, we will submit a draft nearer the time.

ROBERT ARMSTRONG

ROBERT ARMSTRONG

13 May 1982



SOBELL

Faint, mostly illegible text, possibly a letter or document. The text is very light and difficult to read.

13 MAY 1952

Faint text at the bottom of the page, possibly a signature or reference number.





JD  
Gent Maclean  
cc: news

10 DOWNING STREET

*From the Private Secretary*

12 May 1982

CROWN AGENTS FOR OVERSEA GOVERNMENTS AND  
ADMINISTRATIONS: ANNUAL REPORT AND ACCOUNTS 1981

Thank you for your further letter of 12 May.

We are content for publication to go ahead  
on 19 May.

I am copying this letter to Colin Walters  
(Home Office), Murdo Maclean (Chief Whip's Office),  
David Heyhoe (Lord President's Office), Stephen  
Lamport (Mr. Hurd's Office, FCO), Brian Bowley  
(FCO Parliamentary Unit), John Salveson (Treasury  
Parliamentary Unit) and David Wright (Cabinet  
Office).

M. A. PATTISON

Miss N. Andrew,  
Overseas Development Administration.

SR





OVERSEAS DEVELOPMENT ADMINISTRATION  
ELAND HOUSE  
STAG PLACE LONDON SW1E 5DH

Telephone 01-213 5409

From the Minister

12 May 1982

*Dear Mike,*

CROWN AGENTS FOR OVERSEA GOVERNMENTS AND ADMINISTRATIONS:  
ANNUAL REPORT AND ACCOUNTS 1981

Thank you for your letter of 5 May.

As I believe you have already heard, the potential difficulty over a point in the Crown Agents' Accounts has now been resolved and there is no longer any reason from our point of view why publication should not go ahead on 19 May as proposed by the Crown Agents. I should be grateful to know urgently whether you are content for the Crown Agents to proceed accordingly.

I am copying this letter to Colin Walters (Home Office), Murdo MacLean (Chief Whip's Office), David Heyhoe (Lord President's Office), Stephen Lamport (Mr Hurd's Office, FCO), Brian Bowley (FCO Parliamentary Unit), John Salveson (Treasury Parliamentary Unit) and David Wright (Cabinet Office).

*Yours sincerely*  
*Nan Andrew*

(Miss N Andrew)  
Private Secretary

M A Pattison Esq  
Prime Minister's Office  
10 Downing Street



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10 DOWNING STREET

From the Private Secretary

5 May 1982

CROWN AGENTS FOR OVERSEA GOVERNMENTS AND ADMINISTRATIONS:  
ANNUAL REPORT AND ACCOUNTS 1981

Thank you for your letter of 26 April.

I have since spoken to you and to the Treasury about this publication, and I understand that the date is not yet final.

As far as the report of the Crown Agents Tribunal is concerned, no final decisions have been taken on publication timing. In our view, we should allow the Crown Agents' Annual Report and Accounts to appear at whatever is the natural time, and once that is established, we should set a date for the report of the Tribunal a week or so later. I should be grateful if Colin Walters in the Home Office could confirm that he is content with this sequence.

I am copying this letter to Colin Walters (Home Office), Murdo Maclean (Chief Whip's Office), David Heyhoe (Lord President's Office), Stephen Lamport (Mr. Hurd's Office, FCO), Brian Bowley (FCO Parliamentary Unit), John Salveson (Treasury Parliamentary Unit) and David Wright (Cabinet Office).

M. A. PATTISON

Miss Nan Andrew,  
Overseas Development Administration.





10 DOWNING STREET

Mr. [unclear]

?

has.

CF

Papers about this year's  
Civilian Agents Annual Report  
& Accounts are also  
relevant to this subject.

NFA in this until there is  
a reply to my letter of 5/v to  
ODA on that subject.

MAO  
5/v.





Ref. A08305

MR WHITMORECrown Agents Tribunal

The Prime Minister has agreed (your minute to me of 5th April) to make a short statement in Parliament when the Report of the Crown Agents Tribunal is published.

2. The publication of the Report needs to be very carefully planned, not least because of the many individuals including former Ministers involved. I think that it would be as well to postpone publication until after the publication of the Crown Agents' Annual Report for 1981, due on 19th May. Would you see any problem about working to Tuesday 25th or Thursday 27th May as the date for publication of the Report and the Prime Minister's statement? If that week is acceptable, perhaps you could say which of the two dates the Prime Minister would prefer. Given the necessary preliminaries, Thursday 27th May would be slightly more convenient administratively; but that is not an overriding consideration, if the Prime Minister would prefer Tuesday 25th May.

ROBERT ARMSTRONG

4th May 1982





✓ MRF Goreloch

Treasury Chambers, Parliament Street, SW1P 3AG

01-~~XXXXXXXX~~ 233 4749

M A Pattison Esq  
10 Downing Street  
LONDON  
SW1

27 April 1982

*Dear Mike,*

CROWN AGENTS FOR OVERSEA GOVERNMENTS AND ADMINISTRATIONS:  
ANNUAL REPORT AND ACCOUNTS 1981

Nan Andrew copied to me her letter of 26 April about the date of publication of these accounts. I am afraid that the accounts are not yet wholly agreed between the Crown Agents, ODA and the Treasury - there is a technical issue still to be resolved - and it is not yet certain that agreement will be reached in time for publication on 19 May as suggested. Things should be clearer by the end of this week.

2. Meanwhile, particularly because of the timing in relation to the report of the Crown Agents Tribunal, we would be grateful if a final decision on the date of publication could be held back until next week.

3. I am copying this letter to the recipients of Nan Andrew's letter.

*Yours sincerely*

A J SALVESON  
Parliamentary Clerk



26 APR 1962

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9 3  
8 4  
7 5

WASHINGTON  
COMMUNICATIONS

COMMUNICATIONS SECTION







file

Gov mod BK

10 DOWNING STREET

*From the Private Secretary*

27 April 1982

CROWN AGENTS FOR OVERSEA GOVERNMENTS AND ADMINISTRATIONS:  
ANNUAL REPORT AND ACCOUNTS 1981

Thank you for your letter of 26 April. We have no objection to the publication and press conference arrangements which you propose. But you will know that, under the terms of the recent guidance, we are most reluctant to agree to the release of Written Answers before the House sits on each day. You might therefore consider it preferable to announce publication of the Report in a Written Answer to be given the day before publication, thereby appearing in Hansard on the day in question.

I am not aware that final decisions have been taken on the publication of the Report on the Crown Agents Tribunal. I agree that it would be preferable to plan on the basis that the Report of the Tribunal should be published a few days after the Crown Agents' Annual Report and Accounts. No doubt Colin Walters in the Home Office will be in touch on this point.

In addition to Colin Walters, I am sending copies of this letter to Murdo Maclean (Chief Whip's Office), David Heyhoe (Lord President's Office), Stephen Lamport (Mr. Hurd's Office, Foreign and Commonwealth Office), Brian Bowley (FCO Parliamentary Unit), John Salveson (Treasury Parliamentary Unit) and David Wright (Cabinet Office).

M. A. PATTISON

Miss Nan Andrew,  
Overseas Development Administration

CONFIDENTIAL





OVERSEAS DEVELOPMENT ADMINISTRATION  
ELAND HOUSE  
STAG PLACE LONDON SW1E 5DH

Telephone 01-213 5409

From the Minister

26 April 1982

*Dear Mike,*

CROWN AGENTS FOR OVERSEA GOVERNMENTS AND ADMINISTRATIONS:  
ANNUAL REPORT AND ACCOUNTS 1981

The Crown Agents' Annual Report and Accounts for 1981 are to be published as a non-Parliamentary paper. There is a statutory requirement that the Report should be laid before Parliament.

The Crown Agents would like to publish the 1981 Report on Wednesday 19 May and Sidney Eburne, the Chairman, would hold a press conference at 11.45 am on that day. The Report would be laid before Parliament on 19 May and the House of Commons informed of its publication by a Question for Written Answer on the same day.

I understand however that by coincidence the Home Office have provisionally proposed that the report of the Crown Agents' Tribunal should be published on the same date. It would not appear to us to be sensible to publish both reports on the same day and there would probably be some advantage if the latest Report and Accounts of the Crown Agents were available when the report of the Tribunal is published. It would be difficult at this stage to bring forward publication of the Crown Agents' Report and Accounts. We should therefore like to propose that they should be published on 19 May and that consideration should be given to slight deferment, of say a week, of publication of the report of the Tribunal.

I am copying this letter ~~and the enclosure~~ to Murdo MacLean (Chief Whip's Office), Mr D Heyhoe (Lord President's Office), Mr C J Walters (Home Secretary's Office), Mr Lamport, Private Secretary to Mr Hurd, Mr Bowley (FCO Parliamentary Unit) and Mr Salveson (Treasury).

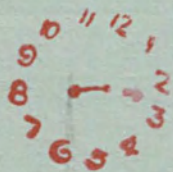
*Yours sincerely*  
*Nan Andrew*

(Miss N Andrew)  
Private Secretary

M A Pattison Esq  
Prime Minister's Office



26 APR 1982





CONFIDENTIAL



JP

10 DOWNING STREET

*From the Private Secretary*

SIR ROBERT ARMSTRONG

CROWN AGENTS TRIBUNAL

The Prime Minister considered over the weekend your minute of 16 April to Mr. Whitmore about the Crown Agents Tribunal. The Prime Minister was grateful for this guide to the Tribunal's report. She has commented that she is very concerned that those who are criticised in the report will have no means of defending themselves. The Prime Minister describes this as "guilt by accusation". She looks forward to receiving the further briefing promised in your minute.

JP

MCS

19 April 1982



I am very concerned  
 that these people will  
 have no means of defending  
 themselves. It really

Ref. A08126

MR WHITMORE

is guilty by  
 accusation.

Crown Agents Tribunal

Prime Minister

(2)

The promised summary. In addition to

Judith Hart & Lord Holderness, 3 former

Permanent Secretaries at the ODA, 2 former

Treasury Permanent Secretaries, and the Deputy

Governor at the Bank are among those

criticised.

MLS 16/4

In my minute of 2nd April, I said that the Crown Agents Tribunal was due to submit its report to the Home Secretary during the first week in April.

2. The report has now been delivered and 15 numbered copies have been distributed to the Ministers and senior officials who need to see it. The Home Secretary announced in a written PQ on 8th April that he had received the report and that arrangements were being made for it to be published.

3. As the report is so long - about 1100 pages of typescript contained in 3 loose-leaf files - the following information may be helpful to the Prime Minister in her preliminary reading.

4. The Tribunal was appointed on 1st March 1978 having been set up, under the Tribunals of Enquiry (Evidence) Act 1921, to investigate certain aspects of the conduct of the Crown Agents between 1967 and 1974. Its terms of reference were to enquire:

'To what extent there were lapses from accepted standards of commercial or professional conduct or of public administration in relation to the operations of the Crown Agents as financiers on own account in the years 1967-1974 described in the Report of the Committee of Enquiry on the Crown Agents (HC 48 of 1977).'

5. The main issues investigated were:

a. the way in which the Crown Agents came to operate as financiers on own account;





- b. the major transactions which led to the ultimate losses;
- c. internal control over the own account activities;
- d. the financial crisis in 1974; and
- e. the part played by Government Departments and the Bank of England in supervising the Crown Agents' activities and considering their future status and accountability.

6. There are 10 parts to the Report and a guide can be found in paragraph 1.30. Part I is basically a discussion of the history which led to the setting up of the Tribunal; how they interpreted their terms of reference; and the way they carried out their tasks. Part X contains their conclusions and some general comments on the findings on specific issues. But each of the other 8 parts deals with the history of a particular subject or group of subjects and summaries of these are given in paragraph 1.30.

7. As I indicated in my minute of 2nd April, we shall provide briefing for the Prime Minister's initial statement nearer the date of publication when we have studied the report more fully. I am afraid that it will inevitably be seen as a serious criticism of the capacity of the Departments and bodies concerned. There is also much in the report which will cause personal unhappiness, since the Tribunal have found that some of the witnesses lapsed from accepted standards of conduct and that others deserved criticism. These include two former Ministers, Lord Holderness and Dame Judith Hart. Most of those concerned have now retired, but some of them are bound to feel aggrieved, especially if, as seems likely, the press gives adverse publicity to named individuals, and to be angrily critical of a process which gives them no right of self-defence or justification. At the back of Volume III there is an index to individuals mentioned in the report with references to the paragraphs containing criticisms or findings of lapses. For ease of reference the Secretary of the Tribunal has also provided us - but for internal use only - with a separate list of those criticised: a copy of this is attached.

RIA

ROBERT ARMSTRONG

16th April 1982



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(for internal use only)

LAPSES AND CRITICISMS

CROWN AGENTS

SIR CLAUDE HAYES

Serious Lapses

- Expansion of own account activities in 1969 and 1970 - 4.107 - 4.109.
- Involvement in Australian venture - 6.67.
- Involvement in E & C - 7.74.
- Inadequate control over own account activities - 13.80.
- Inadequate reporting to Ministry - 19.16.
- Inadequate control during financial crisis - 20.105.

Lapses

- Failure to replace Mr. Challis or make adequate alternative arrangements - 21.44.
- Inadequate concern about accounts - 23.132

Criticisms

- Approval of initial investment in SIS - 9.27.
- Opposition to constitutional change - 19.20.
- Insufficient care over wording of circular to principals about procurement suspense account - 26.25.



MR. CHALLIS

Serious Lapses

- Expansion of own account activities in 1969 and 1970 - 4.110.
- Involvement in Australian venture - 6.65.
- Involvement in E & C including use of comfort letters - 7.73.
- Involvement in Stern Group - 11.80
- Ineffective control of lending from November 1968 - 12.67
- Inadequate reporting to Senior Crown Agent and Crown Agents and FMI Boards - 13.80.
- Failure to disclose Finvest and comfort letters to E & AD and failure to speed action on 1971 and 1972 accounts - 23.131
- Exchange control offences - 24.86.

Lapses

- Impropriety over Manchester Central Station and Westinghouse sites - 7.73.
- Acceptance of loan from Mr. Finley - 9.09
- Impropriety of FNFC, secret underwriting commission - 10.17.
- Impropriety of Weiss Peck and Greer transaction - 24.87.
- Failure to report on or return expensive gift from Mr. Stern - 27.15.

Criticisms

- Role in start and growth of own account activities up to October 1968 - 4.105.
- Inadequate control over acquisition of UK property - 8.12.
- Approval of initial investment in SIS - 9.25
- Inadequate control of lending up to October 1968 - 12.63.
- Failure to report Australian investment to Bank under voluntary restraint programme - 24.90.
- Inadequate action over Mr. Wheatley's gambling - 29.19.



SIR STEPHEN LUKE

Lapse

Start of own account activities - 4.101

MR. MORRIS

Criticism

Insufficient control over wording of circular to principals about procurement suspense account - 26.25

MR. BARLEY

Criticisms

Start of own account activities and failure to keep Senior Crown Agent properly informed - 4.104

Inadequate control of lending before November 1968 - 12.63.

MR. NEWMAN

Lapse

Failure to inform principals adequately about procurement suspense account - 26.24

MR. SHUTER

Serious lapse

Exchange control offences - 24.88

MR. CLARK

Serious lapse

Inadequate control of lending between November 1968 and February 1972 - 12.64

Criticism

Inadequate action over Mr. Wheatley's gambling - 29.19



MR. HEWINS

Serious lapses

Involvement in Stern Group - 11.78

Inadequate control of lending from March 1972 - 12.65

Inadequate control during financial crisis in 1974, including failure to keep Senior Crown Agent properly informed - 20.104

Exchange control offences - 24.89

Criticisms

Concealment of comfort letters - 7.66

Inadequate action over Mr. Wheatley's gambling - 29.19

MR. OSGOBY

Lapse

Circumstances of and reporting on renewal of loans to Stern companies in connection with sale of site in Epsom - 11.79

Criticisms

Inadequate control of lending from March 1972 - 12.66

Inadequate action over Mr. Wheatley's gambling - 29.19

MR. WHEATLEY

Corruption

Acceptance of Anchor loans - 9.81

Serious lapse

Disregard of lending rules and imprudent lending - 12.53

Criticism

Acceptance of use of car provided by SIS - 9.96

MR. DORRINGTON

Lapse

Carelessness in release of security - 12.55



CROWN AGENTS ASSOCIATES

MR. FINLEY

Corruption

Loans to Mr. Wheatley in 1974 - 9.81

MR. DAVIDSON

Serious Lapse

Acceptance and renewal of Anchor loans - 9.81.

Lapse

Silence over inability to take up SIS rights issue - 9.85.

Criticism

Provision of car for Mr. Wheatley by SIS - 9.96.

MR. MATTHEWS

Lapse

Impropriety of FNFC secret underwriting commission and failure to disclose it - 10.17.

MR. STERN

Lapse

Impropriety of gifts - 27.13

DAVIES, ARNOLD & COOPER

MR. DAVIS

Lapse

Inadequate advice on loan to DAC - 30.22.

Criticism

Acting for both sides - 30.35.



MR. MARCUS

Lapse

Impropriety over attempted registration of charges on eleven properties and Trafalgar site - 30.66.

Criticism

Failure to notice and report to Crown Agents on increase in shortfall in security for loan to Murrayfield - 30.44.

MR. CROSSICK

Lapse

Impropriety over attempted registration of charges on eleven properties and Trafalgar site - 30.67.



MINISTERS AND MINISTRY OFFICIALS

LORD HOLDERNESS

Lapse

Overall performance during period July 1972 to February 1974 - 19.47.

DAME JUDITH HART

Criticism

Failure to ask right questions about Crown Agents after 13 May 1974 - 20.115

SIR GEOFFREY WILSON

Lapse

Failure to obtain adequate picture of Crown Agents' own account activities, and misconceived advice to Minister in December 1970 - 19.26.

SIR MICHAEL WALKER

Lapse

Overall performance during period July 1972 to October 1973 - 19.49.

SIR RICHARD KING

Lapses

Inadequate supervision of evidence to Stevenson Committee - 19.32.

Failure to investigate Crown Agents' financial position after 13 May 1974 - 20.116.

Criticism

Failure to bring constitutional discussions to a conclusion between November 1973 and February 1974 - 19.50.

MR. SMITH

Criticism

Inadequate evidence to Stevenson Committee - 19.33



MR. PEARSON

Lapse

Failure to recommend investigation into Crown Agents' finances after 13 May 1974 - 20.117.

TREASURY OFFICIALS

SIR DEREK MITCHELL

Criticism

Failure to appreciate need for investigation of Crown Agents' finances after 13 May 1974 and to ensure that one was undertaken - 20.125

SIR DOUGLAS HENLEY

Criticism

Failure to formulate Treasury views and put these to Stevenson Committee - 19.57

MR. BARRATT

Criticism

Failure to appreciate need for investigation of Crown Agents' finances after 13 May 1974 and to ensure that one was undertaken - 20.126

MRS. BOOTHROYD

Lapse

Overall performance from July 1972 onwards - 19.61 and 20.123

BANK OF ENGLAND

SIR JASPER HOLLON

Lapse

Failure to warn Treasury promptly after 9 April 1974 of threat to Crown Agents' survival - 20.129



Criticisms

Inadequate supervision of Bank's evidence to Stevenson Committee - 19.74.

Failure to advise Government to obtain information necessary to determine whether Crown Agents could meet Bank's requirements for banking business - 19.82

Encouragement of support lending by Crown Agents in late summer 1974 without ensuring Government was aware of it - 20.133

MR. FFORDE

Criticisms

Inadequate supervision of Bank's evidence to Stevenson Committee - 19.74.

Failure to advise Government to obtain information necessary to determine whether Crown Agents could meet Bank's requirements for banking business - 19.82

MR. PAGE

Lapse

Inadequate evidence to Stevenson Committee - 19.73

Criticism

Failure to advise Government to obtain information necessary to determine whether Crown Agents could meet Bank's requirements for banking business - 19.82

E & AD OFFICIALS

MR. BURCH  
MR. FRANCIS

Criticism

Failure to make proper enquiries about Australian commitments - 23.58



Govt. Mach.

PRIME MINISTER

As I mentioned at lunchtime, the report of the Crown Agents Tribunal has now arrived. It is eleven hundred pages long, and runs to three volumes. The Cabinet Office are preparing a succinct summary. If you agree, I will submit the report to you when the summary is available. If you wish to see it before, it is with the Duty Clerk.

From a quick glance, the report extends the line of criticism in the earlier Fay Report. A number of individuals in the Crown Agents, in Government Departments, and in the Bank of England, are criticised. Some are said to have lapsed from the kind of conduct which was to be expected of someone holding their post. Some of these people are still serving officials.

The Home Secretary announced in a Written Answer today that the report had been received. It will be ready for publication in about 6 weeks time. I believe its handling will present the Government with considerable difficulties.

---

MUS

8 April, 1982.



From: THE PRIVATE SECRETARY

Gore Mack

SECRET



HOME OFFICE  
QUEEN ANNE'S GATE  
LONDON SW1H 9AT

7 April 1982.

Dear Clive

Worse in book

... I enclose a copy of the report of the Crown Agents Tribunal which has now been submitted to the Home Secretary. He will be announcing by an answer to an arranged Question before the House rises his receipt of the report and the fact that arrangements are in hand for it to be printed and published.

Meanwhile in accordance with Sir Robert Armstrong's minute of 2nd April, a limited distribution of copies to Ministers and senior officials is being made. Since the report itself is so shortly to be published, we have not attempted to classify the copies. For security purposes, however, I am classifying this covering letter SECRET and I shall be grateful if you would complete and return the attached receipt.

...

Yours etc

Alex Jackson

A. P. JACKSON

Clive Whitmore, Esq.

SECRET



CONFIDENTIAL

N. Jackson  
✓  
to me  
MK  
R  
6iv

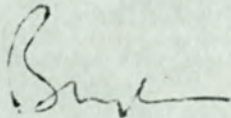
SIR ROBERT ARMSTRONG

cc Mr Whitmore ✓

CROWN AGENTS

In the light of your minute of April 2 on the above, I think it would be wrong to make CFRs available overnight, notwithstanding the length of the Report.

I would recommend issuing them under "long embargo" - ie. that prohibiting approaches to others - at, say, 9.30am for publication at 3.30pm when the Prime Minister might make her statement.



B. INGHAM

6 April 1982





FILE  
with CAW

RM

~~N. [unclear] MAR 6/4~~  
~~N. [unclear]~~

10 DOWNING STREET

From the Principal Private Secretary

to me.

SIR ROBERT ARMSTRONG

W. [unclear] M  
G. [unclear] M  
D. [unclear] M  
[unclear]

CROWN AGENTS TRIBUNAL

I have shown the Prime Minister your minute A08001 of 2 April about the forthcoming report of the Crown Agents Tribunal.

She agrees that she should make a short statement on the lines of Annex A to your minute when the report is published. She is also content that the Home Secretary should announce the receipt of the report by a Written Answer as proposed in your minute.

Finally, the Prime Minister agrees that access to the report before publication should be strictly limited to those who need to know for the purpose of advising Ministers on the initial statement.

I am copying this minute to the Private Secretaries to the Home Secretary, Foreign and Commonwealth Secretary, Chancellor of the Exchequer, Chancellor of the Duchy of Lancaster, Attorney General and the Minister for Overseas Development.

G. A. WHITMORE

5 April, 1982

15



Prime Minister.

Ref. A08001

MR WHITMORE

1. This is going to be difficult.  
 Agree in principle that you should  
 make a short statement on the lines proposed below  
 when the report is published?

Content also that the Home Secretary should  
 announce receipt of the report by Winston Churchill as  
 proposed; and that access to the report before publication  
 should be strictly restricted as this  
 minute suggests? JHW 2.11.

Yes  
 Yes  
 The Tribunal set up by the last Government following the publication of  
 the Fay Report on the financial collapse of the Crown Agents is due to  
 submit its report to the Home Secretary during the first week in April.  
 Informal indications suggest that it is likely to be highly critical of  
 the Crown Agents, and fairly critical of Government Departments and their  
 procedures, of the Exchequer and Audit Department and of the Bank of  
 England. A considerable number of individuals will be named as the  
 subjects of specific criticisms. The report will need very careful  
 handling.

2. There are two issues which require immediate decision:-

- (i) whether the Government should announce that it has received  
the Tribunal's report when it has done so;
- (ii) who should be given access to the report prior to its  
 publication.

3. On the first question an arranged PQ has been used on a number of  
 occasions in the past to indicate that the Government has received a  
 Tribunal's report and is arranging for it to be published. It would be  
 sensible for a similar procedure to be followed on this occasion. The  
 Press are constantly ringing up the Tribunal for news of progress, and  
 there have been stories that the report was about to be submitted. It  
 would be for the Home Secretary (to whom the report is submitted) to  
 make the announcement. Something on the lines of the draft attached  
 at Annex B might be appropriate.





4. An announcement on these lines will stimulate requests from interested individuals for access to the Report. At the same time as the announcement, therefore, it will be necessary for Departments to write to those concerned informing them of the terms on which the Government proposes to provide them with access to the report. This is discussed below.

5. The second question is more difficult. There is likely to be considerable parliamentary and public interest in the report. Given the sensitive nature of its comments, particularly in relation to individuals, we shall need to guard against leaks. I recommend therefore that until publication the number of copies of the report made should be very strictly limited, and access to them should be given only to those in central government who need to know its contents in order to advise Ministers on the nature of the initial Government statement and to the Ministers concerned themselves. It would be inappropriate to let individuals named in the report see it more in advance of publication than as proposed in paragraph 8 below. Similarly other interested organisations such as the Crown Agents and Bank of England should not receive copies prior to publication, unless it is necessary for them to do so in order to advise Ministers on the initial statement. We shall need to consider this further once the Report has been received. If the Prime Minister agrees I will arrange for a strictly limited circulation on this basis.

6. Once the Home Secretary has received the report there will be a period of about 6 weeks before it can be published. Given the considerable Parliamentary interest that is likely to arise I recommend that the Prime Minister should make an oral statement about the report, in the House, on the day of publication.

7. Given the nature and extent of the Tribunal's comments (it runs to over 1100 pages of typescript) it seems certain that it will not be possible to make a substantive statement at the time of publication of the report. Many of the issues raised are likely to be major ones which will require





extensive consultation, and the organisations and individuals criticised should be given an opportunity to offer the Government their views of the Tribunal's findings before any detailed comments are made. These views may well be critical of the way the Tribunal has handled the case. The initial statement will therefore need to be short and to avoid prejudicing the Government's final position. This suggests that the initial statement should be confined to saying that:

- a. the Government is grateful to the Tribunal;
- b. the report is being studied;
- c. the events considered by the report happened some years ago and many changes have taken place since then;
- d. the institutions and procedures examined will be looked at carefully in the light of the Tribunal's comments; the Government will consider whether the changes made have been adequate to meet the criticisms in the report, and whether and (if so) what further action may now be necessary;
- e. the Government intends to make a further statement on the report when it has had time to consider it.

An outline of such a statement is attached at Annex A; obviously this will need to be modified once we have had a chance to examine the report.

8. An initial statement on these lines is likely to attract a wide range of supplementary questions. We shall provide briefing nearer the time. It is to be hoped that they, and any initial Press statements, will permit the Government at the outset to establish some important facts which, while not appropriate to the initial statement, ought to be on the record. In particular we may need to make clear that those giving evidence to the Tribunal were granted immunity from prosecution - which effectively rules out any action against retired civil servants since a conviction is required before a pension can be forfeited. This may have a bearing on the decision that disciplinary action should be taken so long after the event against any people involved who are still serving, when the majority of those involved are now immune. That would be a matter to be covered in the Government's second and substantive statement.



9. We shall need to give the Lobby copies of the 'confidential final revise' of the Tribunal's report with any necessary briefing some hours before publication: we shall need to decide how long before. At about the same time, or shortly before, all individuals and organisations implicated in the report should be given copies of the final revise so that they are forewarned and can respond to any initial inquiries from the Press. This was done in the case of the report on the collapse of Vehicle and General Insurance Company Limited in 1972. Those former and serving civil servants who might be affected have already been reminded of the principles governing activities involving the use of official information, but it is likely that some, particularly those who are now retired, will wish to make personal statements about the Tribunal's comments as they affect themselves. I doubt if we can do more than remind them again nearer the time of the existing rules. The Treasury Solicitor has advised that the release of the report on this basis would have the protection at least of qualified privilege for the purposes of defamation and that the subsequent publication as a Parliamentary paper would remove any real possibility of proceedings being brought on these grounds. Furthermore the interval between release and publication would in practice be too short a period for anyone to be in a position to initiate legal proceedings on other grounds which might inhibit the publication of the report, even if they were advised that they had grounds for doing so. Nevertheless, in view of the large number of people concerned, there is a slight element of risk under this head, together with the possibility of criticism in Parliament for in effect publishing a Parliamentary paper before it was available to Members.

10. Although individuals will not be able to prevent publication if they feel that the Tribunal's criticisms have been unfair, some may wish to pursue the matter further. In this context the Treasury Solicitor has advised that, while those of his staff who acted for Departments during the course of the inquiry could appropriately assist Departments and individuals concerned by clarifying and explaining the relationship





of points in the report with the proceedings before the Tribunal, it would be inappropriate for them to advise individuals about any possible redress legal or otherwise which they might wish to consider. In the case of the two retired civil servants who employed outside solicitors before the Tribunal, it would be equitable to allow them to consult their solicitors on the same basis. Subject to this, I intend to advise Departments that they should not expect to be responsible for funding legal advice for individuals once the report has been published. If a Department, after considering a particular case, feels that there is a strong reason why it ought to support the individual, then the case can be looked at on its merits.

11. There are a number of other issues on which the Prime Minister will require advice if the question of disciplinary proceedings against civil servants still serving arises. It is not possible to offer advice on these until we have had an opportunity to study the report; but we shall do so in due course.

12. It will of course be necessary to look at all this again when the actual report is available: but at this stage I should be glad to have the Prime Minister's approval to proceed on the basis outlined in this minute and in particular for her agreement that there should be an arranged PQ and that access prior to publication should be strictly limited to those who need to know for the purposes of advising Ministers on the initial statement.

13. I am copying this to the Private Secretaries to the Home Secretary, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster, the Attorney General and the Minister for Overseas Development.

REA

ROBERT ARMSTRONG

2 April 1982





## FIRST DRAFT - INITIAL STATEMENT

## THE PRIME MINISTER:

With permission, Mr Speaker, I should like to make a statement on the report of the Tribunal of Inquiry on the Crown Agents which has been published today.

The Tribunal was set up in 1978 by the previous Government under the Tribunal of Inquiry (Evidence) Act 1921 to inquire into the extent to which there were lapses from accepted standards of commercial or professional conduct or of public administration in relation to the operations of the Crown Agents in the years 1967-74.

The Tribunal has examined the issues very thoroughly and the Government would like to express its gratitude to the chairman of the Tribunal, Mr Justice Croom-Johnson, and his colleagues Lord Allen of Abbeydale and Sir William Slimmings for all the time and work they have put into examining these events.

The Tribunal's report is very long and detailed.  
[description/summary of the Report]

The Government is now studying the Tribunal's findings and will examine very carefully the criticisms made in the report. In particular, it will look closely at the institutions and procedures examined by the Tribunal to see to what extent the changes that have taken place since the events of 1967-74 meet the points made by the Tribunal and whether and (if so) what further action now needs to be taken.

The Government will make a further statement when it has had the opportunity to consider the Tribunal's findings more fully.





DRAFT QUESTION

To ask the Secretary of State for the Home Department when he expects to receive the Report of the Tribunal of Inquiry on the Crown Agents.

DRAFT ANSWER

HOME SECRETARY:

I have now received the Tribunal's Report and arrangements are being made for it to be published.





SK

file cc: CWO  
LPO  
FCO  
JIT  
Govt Mach  
Press office

10 DOWNING STREET

From the Private Secretary

18 May 1981

CF  
Jals

Thank you for your letter of 12 May, about the Annual Report and Accounts (1980) of the Crown Agents.

I confirm that we have no objection to the Report being laid before Parliament on Tuesday 26 May. I understand that you have now decided to arrange for this to be forecast through a Written Answer this week.

I am sending copies of this letter to the recipients of yours.

M. A. PATTISON

Miss N. Andrew  
Overseas Development Administration

6





*cd mess*

OVERSEAS DEVELOPMENT ADMINISTRATION  
ELAND HOUSE  
STAG PLACE LONDON SW1E 5DH  
Telephone 01-213 5409

From the Minister

12 May 1981

*Dear Mike,*

CROWN AGENTS FOR OVERSEA GOVERNMENTS AND ADMINISTRATIONS:  
ANNUAL REPORT AND ACCOUNTS 1980

The Crown Agents' Annual Report and Accounts for 1980, the first to be prepared by the incorporated Crown Agents, are to be published as a non-Parliamentary paper. There is a statutory requirement that the Report should be laid before Parliament.

The Crown Agents would like to publish the 1980 Report on Tuesday 26 May and Mr Sidney Eburne, the Chairman, plans to hold a Press Conference at 11.45 am on that day. We therefore propose that the Report should be laid before Parliament on Tuesday 26 May and that the House of Commons should be informed of its publication by a Question for written answer after the recess.

I should be grateful if you would let me know as soon as possible whether you have any objections to these proposals.

I am sending a copy of this letter to Mr Murdo MacLean (Chief Whip's Office), Mr Jim Buckley (Lord President's Office), Mr Adam Wood (FCO), Mr Salveson (Treasury) and Mr Worsnop (FCO Parliamentary Unit).

*Yours sincerely*

*Nan Andrew*

(Miss N Andrew)  
Parliamentary Clerk

M Pattison Esq  
Prime Minister's Office



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10 DOWNING STREET

cc: CO *Govt. Mach* MFJ  
CWO  
CS, HMT  
CDLO  
LPO  
HMT  
FCO  
HO  
LCO

*From the Private Secretary*

30 July 1979

*Dear Bill*

The Prime Minister has seen the Attorney General's minute of 25 July about the Crown Agents Tribunal.

She is pleased to note the potential time saving in the work of the Tribunal which has been identified as a result of the Attorney General's discussion. She is grateful to the Attorney General for his efforts to encourage the Tribunal to tackle its work in the most economical style compatible with its responsibilities.

I am sending copies of this letter to Ian Maxwell (Lord Chancellor's Office), John Chilcot (Home Office), Paul Lever (Foreign and Commonwealth Office), Martin Hall (HM Treasury), Jim Buckley (Lord President's Office), John Stevens (Chancellor of the Duchy of Lancaster's Office), Alistair Pirie (Chief Secretary's Office), Murdo Maclean (Chief Whip's Office) and Martin Vile (Cabinet Office).

*Yours ever*

*Mike Pattison*

W.C. Beckett, Esq., C.B.  
Law Officers' Department.

CONFIDENTIAL

*W*





## 10 DOWNING STREET

PRIME MINISTER

At the meeting of Ministers which considered the future of the Crown Agents Tribunal, you asked the Attorney General to explore any possible ways of reducing the amount of work before the Tribunal.

Sir Michael Havers' attached minute reports that several months work can probably be saved by abandoning the projected investigation of alleged shortcomings by solicitors acting for the Crown Agents, and that this is not likely to be controversial.

May I say that you are pleased to note this potential time saving, and that you are grateful to the Attorney for his efforts to encourage the Tribunal to tackle their work in the most economical style compatible with their responsibilities?

*Yes* *sub.* *MAP*

26 July 1979





ROYAL COURTS OF JUSTICE

LONDON, WC2A 2LL

01-405 7641 Extn 3201

PRIME MINISTER

## CROWN AGENTS TRIBUNAL

At the meeting over which you presided on 16 July, it was agreed that I should explore ways in which the proceedings of the Tribunal might be shortened.

I have now discussed this with the leader of the team of Counsel to the Tribunal and with the Treasury Solicitor and we have identified a number of possibilities which they have undertaken to pursue and to put forward to the Tribunal itself. Some of these are purely improvements of procedure but there is at least one area where we thought that the Tribunal could, with advantage, restrict the ambit of its enquiries. This is the projected investigation of some alleged shortcomings by the firm of solicitors which acted for the Crown Agents; it is generally accepted that there is probably not a great deal of substance in this matter and that it has little, if any, bearing on the main issues which the Tribunal was set up to investigate. If the Tribunal decides not to pursue it (or, at any rate, to limit the scope of their investigation of it), that ought not to give grounds for any accusations of a cover-up.

I am hopeful that the outcome of my discussion will be a substantial saving in time and resources. The estimate that I was given was that, if the Tribunal agrees to adopt the various suggestions which we canvassed, it should result in a saving of several months work and will probably enable the Tribunal to complete its task by the end of next year.

I am copying this minute to the Lord Chancellor, the Home Secretary, the Foreign & Commonwealth Secretary, the Chancellor of the Exchequer, the Lord President of the Council, the Chancellor of the Duchy of Lancaster, the Chief Secretary to the Treasury, the Chief Whip and the Secretary to the Cabinet.

MH.

25 July 1979







From: THE PRIVATE SECRETARY

CONFIDENTIAL

*Govt. Mach.*  
*✓*  
*MAS*



HOME OFFICE  
QUEEN ANNE'S GATE LONDON SW1H 9AT

19 July 1979

*Dear Mike*

CROWN AGENTS TRIBUNAL

Thank you for your letter of *✓* 17 July.

In accordance with the last sentence of the first paragraph of your letter, the Chairman and Secretary of the Tribunal have been informed of the Government's conclusion that the Tribunal should run its course.

I am sending copies of this letter to the Private Secretaries to the Lord Chancellor, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Lord President of the Council, the Chancellor of the Duchy of Lancaster, the Chief Secretary to the Treasury, the Attorney General, the Chief Whip and to Sir John Hunt.

*Yours ever*

*Tony Butler.*

(A J BUTLER)

M A Pattison Esq

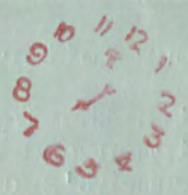
CONFIDENTIAL



1979 JUL 19



19 JUL 1979



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CONFIDENTIAL



Govt Mach.

file ML

10 DOWNING STREET

*From the Private Secretary*

17 July 1979

Crown Agents Tribunal

The Prime Minister has asked me to write expressing her thanks to the Home Secretary for his helpful minutes of 6 and 12 July about the Crown Agents Tribunal. At yesterday's short meeting of Ministers, it was agreed that the Government should not intervene and that the Tribunal should run its course. The Tribunal had asked to be told before the Summer Recess whether or not the Inquiry would be discontinued. Perhaps the Home Secretary would arrange for them to be informed of the Government's conclusion.

I am sending copies of this letter to the Private Secretaries to the Lord Chancellor, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Lord President of the Council, the Chancellor of the Duchy of Lancaster, the Chief Secretary to the Treasury, the Attorney General, the Chief Whip, and to Sir John Hunt.

M. A. PATTISON

John Chilcot, Esq.,  
Home Office.

CONFIDENTIAL

VB



Qf 01710



MR PATTISON

---

cc. Sir John Hunt

Crown Agents Tribunal

After yesterday evening's meeting we agreed that you should write a short letter to the Home Secretary's Private Secretary, briefly setting out the conclusions of the meeting.

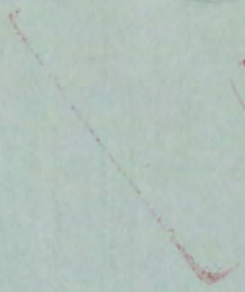
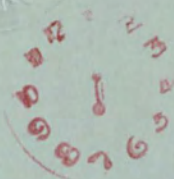
— 2. I attach a draft.

P. J. H.

P J HARROP

17 July 1979







DRAFT LETTER FROM MR PATTISON TO MR CHILCOT, PRIVATE SECRETARY  
TO THE HOME SECRETARY

Crown Agents Tribunal

The Prime Minister has asked me to write expressing her thanks to the Home Secretary for his minutes of 6 July and 12 July about the Crown Agents Tribunal. At yesterday's short meeting it was agreed that the Government should not intervene and that the Tribunal should run its course. The Tribunal asked to be told before the Summer Recess whether or not the Inquiry would be discontinued. Perhaps the Home Secretary would arrange for them to be informed of the Government's conclusion.

I am copying this to the Private Secretaries of the Lord Chancellor, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Lord President of the Council, the Chancellor of the Duchy of Lancaster, the Attorney General, the Chief Whip, and to Sir John Hunt.



PRIME MINISTER

The meeting of Ministers on the Crown Agents is scheduled for 1730 on Monday. Half an hour is allowed. The Home Secretary, Lord Chancellor, Foreign and Commonwealth Secretary, Lord President, Chancellor of the Duchy, Chief Secretary, Attorney General and Chief Whip will attend. Sir John Hunt and one of his staff will service the meeting.

The initial round of correspondence favoured bringing the Tribunal to a halt, whilst recognising the difficulties involved. Since you asked for a meeting, the Home Secretary has set out the arguments for and against (Flag A), and has arranged some consultation with members of the Tribunal (Flag B). The Treasury Solicitor has also offered a note underlining the differences in this Inquiry from the earlier Fay Inquiry (Flag C). He reckons that the overall costs are unlikely to exceed £2 million.

Sir John Hunt's brief below brings this together. His personal advice is that winding up now might be a mistake, even if the original decision to go ahead was also a mistake.

*MAP*

*In my view the Tribunal  
should continue. The meeting  
need not. therefore take long  
no.*

13 July 1979



Ref: A09966



CONFIDENTIAL

PRIME MINISTER

Crown Agents Inquiry

In paragraph 10 of my brief dated yesterday, for your meeting on Monday, I said that I was inclined to advise against winding up the Tribunal unless the latter was itself prepared to express a view on the matter. This brief was written before I had seen the Home Secretary's second minute, also dated yesterday, which gives the views of the Tribunal. Having read the latter, I think the case against winding up is even stronger.

Flag B

(John Hunt)

13th July 1979





C  
CONFIDENTIAL

Matthew Parker Street  
London SW1H 9NN

Telephone 01-233 7391

Sir Basil Hall KCB, MC, TD

Our reference

Your reference

PPS/Prime Minister

CROWN AGENTS TRIBUNAL

I have seen a copy of the Home Secretary's minute to the Prime Minister of the 12th July. I write this minute in case you should wish to give any further background briefing to the Prime Minister.

The costs of the Tribunal are dealt with by this Department. We have already received some accounts and it appears to me that even if the Inquiry should go on well into 1981 its costs are unlikely to exceed two million pounds. In reaching this figure I have included an element in respect of the costs of the Bank of England and the Crown Agents.

It may be right to call the Prime Minister's attention to the fact that the Terms of Reference of this Inquiry are to enquire

"to what extent there were lapses from accepted standards of commercial or professional conduct or of public administration in relation to the operations of the Crown Agents as financiers on own-account in the years 1967-74 described in the report of the Committee of Inquiry on the Crown Agents (HC 48 of 1977)".

The terms of reference of the Fay Inquiry were different. They were

"to inquire into the circumstances which led to the Crown Agents requesting financial assistance from the Government".

The matter of the exchange control prosecutions are referred to in paragraph 2 of the annex to the Home Secretary's minute of the 6th July and in paragraph 2(5) of that of 12th July. The immunities given was the general immunity given to all witnesses - that the evidence of a witness would not be used against him in criminal proceedings. It would not have been the case but that for the Inquiry there would have been prosecutions. The correspondence which I have with the Deputy Director of Public Prosecutions states that the enquiries made had revealed no evidence of personal gain and that in all the circumstances he did not think that public interest required a prosecution even though there may

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Matthew Parker Street  
11/12/79  
well have been contraventions of the Exchange Control Act 1947. I entirely agree with the Tribunal that the procedures laid down by the Salmon Commission can be unworkable. I have had difficulties with other Inquiries, though the difficulties were not so severe as they were in this.

I have not thought it necessary to copy this minute elsewhere.

*Basil Hall*

Treasury Solicitor

13th July 1979

11/12/79  
13 JUL 1979



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B

PRIME MINISTER

CROWN AGENTS TRIBUNAL

In my minute of 6th July I set out the background for our discussion on the possibility of winding up the Crown Agents Tribunal, and the main arguments for and against.

2. With my approval, my Permanent Secretary has sought the views of the members of the Tribunal on this matter. He reports as follows:

- (1) the Chairman of the Tribunal expects the inquiry to run well into 1981. He would expect the process of hearing evidence to be completed early in 1981 at the earliest, and possibly not until the middle of the year. Thereafter the Tribunal would have to finish their report, though much of it would be able to be written before the process of hearing evidence is completed;
- (2) the Tribunal are not prepared to hazard any guess as to the costs of the inquiry, if it goes through to completion. Informal discussion with them suggested that the cost of the inquiry could well be of the order of £3 million, mostly in legal fees. That figure includes the costs to the Bank of England and the Crown Agents who are carrying their own costs, as well as costs falling on the Treasury Solicitor. I understand that the Treasury Solicitor thinks that figure on the high side;
- (3) the members of the Tribunal do not themselves wish or intend to express any view about whether it should be wound up. They are the servants of the state for this purpose, there to do a job. They could be put in a very difficult position if they were to express a view one way or the other;

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- (4) the Tribunal would recommend against trying to seek the agreement of all those concerned, if the Government is minded to discontinue the Tribunal, and would not wish themselves to undertake the task of seeking that agreement. They doubt whether all concerned would be prepared to agree;
- (5) the inquiry is covering one or two aspects of the matter which were not covered by the Fay Inquiry. The Tribunal have received evidence from two witnesses who refused to give evidence to Fay (Mr Davidson and Mr Finlay). At the time the Tribunal was set up the Director of Public Prosecutions was considering the possibility of exchange control prosecutions. Those prosecutions were abandoned. The Tribunal agreed to investigate the exchange control matters in question, and witnesses were given immunity from prosecution. Witnesses have already given evidence on that basis. If the Tribunal was discontinued, those matters would have to be left uninvestigated;
- (6) if the Tribunal reports, it is likely that it will differ from the conclusions of the Fay Inquiry in certain limited respects;
- (7) if the inquiry is discontinued now, there can in the Tribunal's view be no question of an interim or provisional report on the substance of the inquiry. They would, however, wish to report on certain questions of procedure: they have found some of the procedures laid down by the Salmon Commission unworkable, and propose to draw these matters to the Government's attention;
- (8) the Tribunal would very much like to know whether or not the inquiry is to be discontinued before they rise for the summer recess at the end of this month.

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3. My Permanent Secretary asked whether the Tribunal's work would be significantly delayed by the illness of Mr John Rankin, Counsel for Sir Claude Hayes, the former Principal Crown Agent, who is due to be the next witness. The Tribunal said that it would be impossible for a new Counsel to come into the picture at this late stage. The junior who had been supporting Mr Rankin was taking over the lead. The Tribunal had said that they would not call Sir Claude Hayes for his evidence in chief until mid-September. Mr Rankin might be back by then; if (as seemed more likely) he was not, that would give the junior time to prepare himself. The delay should not be greater than about a fortnight in effect, since the Tribunal in any case would have been rising for the summer recess during August and the first half of September.

4. My Permanent Secretary tells me that it was evident from the discussion that the Tribunal were worried about the risk of an appearance of unfairness, if the Tribunal's inquiry were now to be discontinued. Sir Claude Hayes's reputation had been called in question in the evidence which had been given, and he would be deprived of the opportunity of answering the allegations. He would think that unfair; other witnesses - Sir Claude Hayes's former subordinates at the Crown Agents - might think it unfair that he had not been subject to the same scrutiny as themselves. Furthermore, it was expected that he would take the line that much of the responsibility for what had gone wrong lay with people in the Ministry of Overseas Development, the Treasury and the Bank of England: it was just those people who would be relieved of the necessity to give evidence by a decision to call the inquiry to an end now.

5. I am sending copies of this minute to the Lord Chancellor, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Lord President of the Council, the Chancellor of the Duchy of Lancaster and the Attorney General, and to Sir Ian Bancroft, Sir John Hunt and the Treasury Solicitor.

CONFIDENTIAL

hs10  
12th July 1979



12 JUL 1979

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9 4 2  
8 7 3  
6 5 4







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Govt Marluney

PRIME MINISTER

Crown Agents Inquiry

BACKGROUND

You have called a meeting for Monday 16th July to consider whether the Crown Agents Inquiry should be disbanded. The main document is the Home Secretary's minute to you of 6th July; other relevant papers are:-

The Home Secretary's original minute to the Foreign and Commonwealth Secretary of 11th June.

The Attorney General's minutes of 14th and 15th June.

The letter from the Private Secretary to the Lord President of 20th June.

The Chancellor of the Duchy's letter of 21st June; and

The letter from the Private Secretary to the Foreign and Commonwealth Secretary of 25th June.

2. Anxiety about the Crown Agents, and especially their "own account" operations, goes back to the late 1960s and resulted in the appointment of the Stevenson Inquiry in 1971. That report was concerned primarily with the status of the Crown Agents and their relationship with the Government; it was completed later that year and was the subject of a statement by the then Minister for Overseas Development (Mr. Richard Wood). It was not published at that stage.

3. There followed the financial disaster which occurred in 1973-74: the basic facts are that the Crown Agents' "own account" speculation in property and secondary banking had resulted in a deficit of over £200 million, for which the Government had to mount a rescue operation. There was strong feeling on both sides of the House of Commons which led to the appointment of the Fay Inquiry in April 1975. This inquiry was concerned with the facts of the financial loss and its report, together with the report of the Stevenson Inquiry, was published on 1st December 1977.





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4. The Labour Government's original intention at that stage was to appoint a further, private, inquiry under the chairmanship of Sir Carl Aarvold to assess the nature and gravity of any neglect or breach of duty by individuals, both in the Crown Agents themselves and also in the then Ministry of Overseas Development, the Treasury, the Bank of England and the Exchequer and Audit Department. That intention was announced in Parliament on 1st December 1977 but was overturned by a subsequent debate initiated by Mr. John Mendelson on 5th December, as a result of which the Government decided on a public Tribunal of Inquiry under the Tribunals of Inquiry (Evidence) Act 1921. The latter decision was announced on 8th December 1977.

5. The debate on 5th December 1977 was the culmination of several years of increasing concern among backbenchers of both main Parties. It was focused partly on the individuals who had been responsible for what had taken place (some of whom had been identified in the Fay Report and were being prosecuted), and partly on the performance of the various institutions which had been involved - Government Departments, the Bank of England, and Parliament's own failure to find out earlier what had been happening. None of the speakers on either side of the House criticised the Government's decision to hold a further inquiry, but most argued that it should be a full Tribunal sitting in public. The present Attorney General as Opposition spokesman, and Mr. Richard Wood, who had been Minister of Overseas Development in the critical period 1970-1974, both argued that any inquiry should be in public, but without committing themselves on whether it was needed or on the value of the results it might produce. Other leading speakers were Sir Bernard Braine, Mr. Peter Brooke and Mr. Richard Luce on the Conservative side, and Sir Harold Wilson, Mr. Michael English, Mr. George Cunningham and Mr. Dennis Skinner, as well as Mr. Mendelson, on the Labour side; Mrs. Judith Hart spoke for the previous Government.

6. The Tribunal was set up on a Motion by the then Home Secretary on 28th February, 1978. It was to enquire "to what extent there were lapses from accepted standards of commercial or professional conduct or of public administration in relation to the Crown Agents as financiers on own account





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in the years 1967-74 described in the report of the Committee of Inquiry on the Crown Agents" (the Fay Report). The present Attorney General welcomed the motion on behalf of the Opposition.

7. The Home Secretary, supported by the Lord Chancellor, the Lord President and the Attorney General, has questioned whether the Inquiry should continue. The arguments for and against disbanding it are set out in the Annex to his minute of 6th July. Although there is no precedent for disbanding a Tribunal set up under the 1921 Act, it can be done under the Prerogative. There is no legal requirement to obtain the approval of Parliament but in view of the background it would clearly be right to give both Houses the opportunity for a debate.

HANDLING

8. You might invite the Home Secretary to introduce his paper and then to ask the Attorney General (who has made most of the running) and the Lord Chancellor whether they have anything to add. The discussion might then concentrate on the following questions:-

- (a) Are Ministers satisfied that the Inquiry will not produce sufficient results to justify the expense?

About £1 million might be saved. There is little public interest. The view that there is no real advantage to be gained from letting the Inquiry run its course (paragraph 2 of the Annex to the Home Secretary's paper) has come from informal consultation with the Chairman, Mr. Justice Croom-Johnson, the Counsel to the Tribunal, Mr. Robert Gatehouse, QC, and other counsel. It is supported by the Treasury Solicitor. Does it apply both to uncovering the faults of individuals and to casting light on the performance of institutions, about which Parliamentary feeling will be equally strong? What statements can be quoted publicly to support this conclusion? The Home Secretary rules out asking the Chairman or the Tribunal collectively for public support. Could the Counsel to the Tribunal be asked formally to go on the record?





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- (b) Would it be politically acceptable for the Inquiry to be disbanded at this stage?

There are likely to be accusations of "cover-up", and you will need to bear in mind that the events took place in the main during the last Conservative Administration. On what basis can the Government justify a departure from the view, which they took in Opposition and which the then Government accepted, that a Tribunal was preferable to a shorter private investigation?

(It was recognised at the time that a Tribunal would take two or three years). Those who have been criticised already, and especially Sir Claude Hayes who was head of the Crown Agents from 1968 to 1974, might well claim that they have been denied the opportunity to clear their names - an important argument. Would a decision to disband the Inquiry make it easier or more difficult not to proceed with a post-Bingham inquiry?

- (c) Must a decision be taken now?

Sir Claude Hayes, whose evidence is due probably in September, is expected to be critical of the Ministry of Overseas Development, the Treasury and the Bank of England. Accusations of "cover up" would be much stronger if the Tribunal were wound up once he had given it. Secondly, such a decision can more easily be justified in the early days after a new Government has taken office. A decision can clearly not be announced while Parliament is in recess. November would be too late.

- (d) If the Inquiry is to be disbanded, what steps should now be taken?

- (i) There may be need for urgent consultation with the Tribunal about the modalities e.g. the costs of the parties. You will want the views of the Attorney General and the Home Secretary.





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- (ii) There would clearly have to be a debate in both Houses, for which it would be difficult to find time, especially in the Commons. You will want the views of the Chancellor of the Duchy and of the Chief Whip. (I understand that a three-hour debate might just be possible before the debate on the Northern Ireland Appropriation Order which is planned for 24th July.)
- (iii) The Home Secretary proposes that there should be discussions with the 1922 Committee before the debate.
- (iv) Should there also be discussion with the Opposition?
- (v) Detailed arrangements for any consultations and for the debates could probably be left to the Home Secretary to settle with the Leaders of the two Houses in consultation with the Lord Chancellor and the Attorney General, as the Home Secretary has proposed.

CONCLUSIONS

9. In guiding the meeting to a decision you will wish to establish:-

- (a) Whether cancellation of the Tribunal would do injustice to any of those criticised in the Fay Report.
- (b) Whether anything useful is likely to come out of the Tribunal justifying the expenditure of a further £1 million.
- (c) Whether the Government could obtain support in public for that view from any of those engaged in the work of the Tribunal, e. g. Counsel to the Tribunal.

And you will wish to take a view of the likely public and Parliamentary presentation of a decision to wind up the Tribunal.

10. If I may add a personal comment, I am inclined to advise against winding up the Tribunal. I am clear that it has been a costly mistake and that we shall get very little useful from it. But unless the Tribunal is itself prepared to say this, I think the Government might have difficulty in meeting





CONFIDENTIAL

arguments in the House about a cover-up, particularly since a Conservative Administration was in power for the critical period 1970-74. In any case there is very little time left for the necessary consultations and debate before Sir Claud Hayes starts his evidence (see paragraph 8(c) above).

John Hunt

12th July, 1979





A

PRIME MINISTER

CROWN AGENTS TRIBUNAL

You have called a meeting to discuss the possibility of winding up the Crown Agents Tribunal. It may be helpful if I set out, as a basis for discussion of the question (on which I have already consulted those of my colleagues most directly involved), something of the background and the main arguments.

BACKGROUND

The tribunal was set up by the last Government under the Tribunals of Inquiry (Evidence) Act 1921, following publication of the Fay Report (HC 48 of 1977) on the financial collapse of the Crown Agents. The then Government first proposed the appointment of a committee of inquiry sitting in private and mainly intended to assess the culpability of individuals involved, but the House of Commons rejected this course at the end of a debate on 5 December 1977 (Official Report, Cols. 1026-96) during which the present Attorney General expressed a preference for a 1921 Act tribunal.

The tribunal was appointed on 1 March 1978, held a formal meeting in April 1978 and began hearings in September 1978. Present indications are that the tribunal's hearings are likely to continue well into next year, if not into 1981, with the report appearing some time later.

The tribunal was set up, as the Act provides, by a warrant signed by my predecessor following resolutions passed by both Houses of Parliament. There is no precedent for bringing such a tribunal to an end before it has reported but, as I understand the legal position, there is power in the Crown to dissolve the inquiry, and as a matter of law at any rate there is no requirement to seek Parliamentary approval.

Any decision to end the inquiry must be taken very soon. The choice is between allowing the inquiry to be completed and stopping it now without any report. So far the tribunal has heard part of one side of the case, and there is no sufficient basis for even an interim or provisional report. The next major witness is Sir Claude Hayes (Senior Crown Agent 1968-74) and it would be difficult to terminate the inquiry once he had begun to give evidence. That will probably not be until the autumn, but a decision must be taken before the Recess.



## ARGUMENTS FOR AND AGAINST DISBANDMENT

I have set out in an annex to this minute the arguments for and against disbanding the tribunal as they have emerged from preliminary discussion with colleagues. It seems very unlikely that the conclusions of the inquiry will justify the expenditure of public money and of legal talent entailed in its continuance. If, however, we call a halt to it now, we shall be accused of a cover-up (just as the most senior people involved in the Crown Agents and in Departments are about to come under examination); and we cannot be sure that all those whose conduct is under scrutiny would acquiesce. So there are political risks, which we have to consider in relation to our decisions on following up the Bingham Report.

## PARLIAMENTARY HANDLING

If we decide that the tribunal should be dissolved, we shall need to seek the endorsement of both Houses for the decision before it is put into effect. I suggest that it should be left to the Leaders of the two Houses and myself, in consultation with the Law Ministers, to settle the terms in which the matter should be brought before Parliament. Some preliminary soundings of our own backbenchers in the Commons would also seem advisable.

I am sending copies of this minute to the Lord Chancellor, the Foreign & Commonwealth Secretary, the Chancellor of the Exchequer, the Lord President of the Council, the Chancellor of the Duchy of Lancaster and the Attorney General, and to Sir John Hunt.

*hwlh*  
6 July 1979



## ARGUMENTS FOR AND AGAINST DISBANDING THE TRIBUNAL

Arguments for

1. To disband the tribunal now would save £1 million (some would say considerably more) in costs to be met by the Government; there would also be savings for the Bank of England and the Crown Agents who are meeting their own costs. This largely reflects the demands which the inquiry is making on the time and skills of members of the legal profession.
  
2. Informal and separate consultation has shown that the chairman of the tribunal, counsel for the tribunal, and at least one among leading counsel appearing for persons involved in the inquiry share the view that there is no real advantage to be gained from letting the inquiry run its course. That is also my assessment. The tribunal cannot be expected to produce any significant new facts, though there may be a few points on which its findings may differ from those of the Fay Committee. In particular, its terms of reference, unlike those of Fay, extend to exchange control matters, in relation to which those concerned have been given immunity from criminal proceedings: so if the inquiry were wound up those matters would not be pursued at all. But I doubt whether any benefit in this respect would be commensurate with the cost.
  
3. Disbanding the tribunal would not be inconsistent with the line we took in Opposition. In the December 1977 debate the present Attorney General did no more than express a preference for a 1921 Act tribunal over the private inquiry favoured by the Labour Government. When the resolution setting up the tribunal was moved in the House of Lords, the present Lord Chancellor questioned the need for any further inquiry at all.





Arguments against

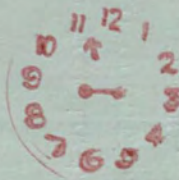
4. If the inquiry were terminated now, some of those whose conduct has been called in question, and who may already have been given notice of allegations, would be left with no opportunity to defend or explain themselves. The proceedings of a tribunal, which is an inquisitorial body deciding its own course of inquiry, are quite different from those of a criminal trial where, if the prosecution is abandoned, the defendants are acquitted. The person most criticised, who has not yet given evidence, is Sir Claude Hayes, Senior Crown Agent at the relevant time, who is expected to defend himself by criticising the role of the Ministry of Overseas Development, the Treasury and the Bank of England, and might feel aggrieved at being deprived of the opportunity to do so.

5. Those who pressed most strongly for an inquiry, and those whose reputations have been called in question, would say that to stop now is a deliberate attempt to cover up the actions of Ministers, particularly of those involved during the last Conservative administration, and to make scape-goats of those criticised while protecting from examination anyone in the Departments concerned, and the Bank of England, whom the tribunal might find to have been at fault.

6. Although many of those best placed to know agree that continuing with the inquiry will be largely a waste of time and money, we could scarcely ask either the tribunal collectively or the chairman to give our decision any public support: the most we could hope for would be their acquiescence, and their co-operation in seeking the agreement of the parties concerned to discontinuance. We should have to take responsibility for the decision. The Opposition would no doubt feel bound to criticise it, and unless the tribunal succeeded in securing the acquiescence of all those concerned there could be complaints from individuals who felt that they were being treated unjustly.



- 6 JUL 1979







1.  
BF 13/vii  
(for meeting  
16/vii)

10 DOWNING STREET

PRIME MINISTER

You agreed that we should call in Ministers concerned with the Crown Agents Tribunal at 1730 on Monday 16 July.

The Home Secretary has now summarised the case for and against in the attached memorandum. I take it that you would still prefer to deal with this at a small meeting and not try to settle the matter by correspondence?

Would you like Sir John Hunt to service the meeting as if it were a Cabinet Committee?

MAD

6 July 1979



PRIME MINISTER

1.  
Please file.  
16 July

We still have to fix the discussion about the proposal to halt the Crown Agents Tribunal of Inquiry. The Ministers who have been involved in the correspondence are the Home Secretary, Lord Chancellor, <sup>Chof. Sec.!</sup> Chancellor of Exchequer, Foreign and Commonwealth Secretary, Lord President, Chancellor of the Duchy of Lancaster, and the Attorney General. Should we fix a meeting for 1730 on Monday, 16 July?

MAD

Yes please

ms

4 July, 1979.

HS confirmed: & he will circulate a minute as basis for discussion



CONFIDENTIAL

*Govt Machinery*



10 DOWNING STREET

BF 3.7.79

*for meeting (?)*

*From the Private Secretary*

28 June 1979

*Dear John,*

The Prime Minister has seen the recent exchanges of minutes on the subject of the Crown Agents' Tribunal of Inquiry.

Whilst she recognises the force of the argument in favour of rapid termination of this Inquiry, she believes that this decision needs fuller discussion, at a time when the Government is likely to announce a decision to abandon any further inquiry arising from the Bingham Report.

The Prime Minister will, therefore, arrange to call a meeting of the Ministers involved after her return from Tokyo.

I am sending copies of this letter to Paul Lever (Foreign and Commonwealth Office), Ian Maxwell (Lord Chancellor's Office), Bill Beckett (Attorney General's Office), Jim Buckley (Lord President's Office) and John Stevens (Chancellor of the Duchy's Office), and to Martin Vile (Cabinet Office).

*Yours ever*

*Mike Pattison*

John Chilcot, Esq.,  
Home Office.

CONFIDENTIAL





10 DOWNING STREET

Note in Tokyo Box:  
Spoke Cabinet Office  
suggested putting this  
on Cabinet Agenda

MR.



16. P.  
PRIME MINISTER

~~16~~ No. 10  
informal.  
P.A.  
by  
27/6

You suggested that you should chair a discussion, in an ad hoc sub-Committee, about the proposal to halt the Crown Agents Tribunal of Inquiry.

Questions at issue are the difficult and legal hurdles that arise, particularly when the Government may be deciding not to undertake any further inquiry in the wake of the Bingham Report. Would it not therefore be simplest to put this question on the Cabinet Agenda on Thursday 5 July, when you will also be taking a final decision on the Bingham question?

If you agree, I will arrange for the Home Secretary to circulate a short paper.

MAP

26 June 1979

It is too complicated  
to discuss in Cabinet

MS



PRIME MINISTER

The Home Secretary (Flag A) has proposed that the Crown Agents' Tribunal of Inquiry should now be brought to a halt. The Foreign and Commonwealth Secretary (Flag B) agrees, subject to careful presentation. In other correspondence not included here, Messrs. St. John-Stevas, Howe, Havers and Lord Hailsham and Lord Soames all agree that continuation will be a waste of expensive legal talent and of public funds; but recognise that there will be some political and legal hurdles to cross in terminating it. Lord Hailsham and Sir Michael Havers consider that the approval of both Houses of Parliament should be sought to the discontinuation of the Inquiry. Mr. St. John-Stevas suggests that a three-hour debate (on the adjournment motion) will be needed before the summer recess (and after consultation with the tribunal members and perhaps the 1922 Committee).

Are you content that the Home Secretary and the Foreign and Commonwealth Secretary should between them arrange for the termination of the Inquiry, with due regard to presentation?

*M.A.P.*

25 June 1979

*Beating in with any action (or otherwise) we may take on Dwyham - I doubt whether this is the right time to propose such a step. - Can we discuss with ad-hoc sub-committee?*

*Col. A.C. H. Sec. N.H. J. St. L.P. M.T. Wickham*





Foreign and Commonwealth Office

London SW1A 2AH

25 June 1979

old

Dear John,

Crown Agents: Tribunal of Inquiry

Lord Carrington has given careful consideration to the proposal in the Home Secretary's minute of 11 June that the possibility of disbanding the Tribunal of Inquiry into the Crown Agents affair should be investigated.

The Foreign and Commonwealth Secretary entirely agrees with the Home Secretary that the final cost of this exercise is likely to outweigh any possible public benefit. However he thinks it must be recognised that, since the events now being considered by the Tribunal took place in the main during the last Conservative Administration, any move to disband the Tribunal will need careful presentation. Lord Carrington would be content to be guided by the advice of his other colleagues in this matter. But if it were decided to terminate the Inquiry, he hopes that thought will be given to how Ministers could defend themselves against accusations of a "cover-up".

I am copying this letter to the Private Secretaries to the Prime Minister, the Lord Chancellor, the Chancellor of the Exchequer, the Lord President, the Chancellor of the Duchy of Lancaster and the Attorney General, and to the Treasury Solicitor and Sir John Hunt.

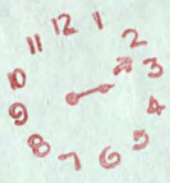
*John Carrington*  
*J. G. H. Walden*

(G G H Walden)  
Private Secretary

J A Chilcot Esq  
Private Secretary to the Secretary of State  
for the Home Department  
Queen Anne's Gate  
London SW1



25 JUN 1979







with compliments

CHANCELLOR OF THE DUCHY OF LANCASTER  
70 Whitehall London SW1A 2AS  
Telephone 01-930 5422





Chancellor of the Duchy of Lancaster

Cabinet Office  
70 Whitehall London SW1  
Telephone 01-233 5826

21 June 1979

*Dear Willie,*

## CROWN AGENTS: TRIBUNAL OF ENQUIRY

Thank you for sending me a copy of your minute to the Foreign and Commonwealth Secretary of 11 June. I agree that the Tribunal of Enquiry into the Crown Agents should be abandoned if it is now clear that the results will not justify the costs.

I also agree with the Lord Chancellor and the Attorney General that we should seek the approval of both Houses of Parliament. In the Commons this will probably mean a three-hour debate on a motion for the adjournment. It should clearly be preceded by consultations with the Tribunal itself and, in view of the likely political reaction, I think it would also be prudent to consult the 1922 Committee. The main criticism is likely to come from members of the Opposition but there will be some feeling among our own supporters as well.

As you know, the timetable in the Commons is very congested in the period up to the long recess, and the pressure will become greater as we get further into July. From my own and the Chief Whip's point of view the sooner we can arrange the debate the better, and there will not be much time for the preliminary consultations. I therefore hope very much that a decision in principle can be reached during the next few days.

Cont...



25 JUN 1979





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I am sending copies of this letter to the Prime Minister and to the other recipients of yours and also to the Chief Whip.

*Yours ever* *W.*

The Rt Hon William Whitelaw, CH, MC  
Secretary of State  
Home Department  
Queen Anne's Gate  
LONDON  
SW1

CONFIDENTIAL





MS

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

21 June, 1979

*Dr White*

Your minute of ~~11th~~ June suggested that we should seriously consider abandoning the Inquiry into the Crown Agents affair.

I am conscious that my Department is one of those whose conduct in the matter is before the Tribunal. For that reason alone I should not want to argue for the abandonment of the investigations if I thought it was likely to produce a useful report from which we could learn how to avoid similar episodes in the future.

But I do not believe this to be at all likely. The Fay Report provided an analysis sufficient for the lessons to be learnt. The Crown Agents were put on a new footing at the end of the last Parliament by legislation which we supported both in principle and, largely, in detail. The Treasury carried out a review, with other Departments, to identify any other bodies whose anomalous position might hold similar risks. We have recently (for different but not unrelated reasons) put in hand our own thorough review of quangos of all kinds. I cannot believe (any more than does Counsel to the Tribunal) that if the Tribunal carried its work to a conclusion in 1981 (or even later) we could expect to learn a great deal more, except perhaps where the blame should fall - and even the message on this issue (for what it is worth) is hardly likely to emerge with great clarity at the end of a long and increasingly complex investigation.

It is indeed becoming apparent that the Tribunal's task is far more complicated than I think anyone anticipated when the work was begun. It also promises to be vastly more expensive than we could have expected, in both money and the demands it makes on the time and skills of a lot of people who might be more profitably occupied. I must myself have particular regard to the possibility of saving of the order of £1 million to £2 million on the direct costs of the inquiry (plus more, I am sure, in

The Rt. Hon. William Whitelaw, CH, MC, MP.,





indirect savings which Departments will be able to make if they no longer have to service the Tribunal in various ways). This may not be a great deal to set against the total of public expenditure, but we are committed to the elimination of waste and inefficiency and it would be quite wrong for us to go on spending money on this Tribunal unless we are convinced that it is serving a useful purpose. We cannot with integrity ignore Counsel's view (which Michael Havers has reported to us) that the continuation of the inquiry would be a huge waste of public money and of people's skills. I share this view, and I think moreover that the Tribunal, however unfairly, is certainly tending to bring the entire legal process into disrepute.

I do not under-rate the political and legal difficulties we should have to face if we were to bring this inquiry to a swift conclusion. But I am convinced that this is what we should pay to do.

I am sending copies of this minute to the recipients of yours.

A handwritten signature in black ink, appearing to read "Geoffrey Howe", written in a cursive style.

(GEOFFREY HOWE)



22 JUN 1979

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✓MS

**Civil Service Department**  
Whitehall London SW1A 2AZ  
01-273 4400

20 June 1979

John Chilcot Esq  
Private Secretary  
Home Office  
50 Queen Anne's Gate  
LONDON SW1H 9AT

*Dear John,*

CROWN AGENTS: TRIBUNAL OF ENQUIRY

The Lord President has seen the Home Secretary's minute of 11 June and those of his other colleagues. He shares the widespread view that the Tribunal is a waste of expensive legal talent and public funds.

I am copying this to the Private Secretaries to the Prime Minister, Lord Chancellor, Chancellor of the Exchequer, Chancellor of the Duchy of Lancaster and the Attorney General, and to the Treasury Solicitor and Martin Vile in the Cabinet Office.

*Yours sincerely,  
Jim Buckley.*

J BUCKLEY  
Private Secretary



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ROYAL COURTS OF JUSTICE  
LONDON, WC2A 2LL

15 June 1979

PRIME MINISTER

## CROWN AGENTS INQUIRY

1. I have now seen Robert Gatehouse QC, who is, as Counsel to the Tribunal, performing the same function as I, as Attorney General, would always have done prior to the Salmon Report.
2. Gatehouse and his team of two other Silks and two juniors have all taken the view that nothing is likely to come out of the Tribunal in the end, and he tells me that all Counsel involved in the work of the Tribunal share the opinion that the continuation of the work of the Tribunal is a huge waste of public money and an unjustifiable diversion of the time and skills of so many professional people. Gatehouse is prepared to write to me confirming his team's view.
3. Gatehouse also told me that it was his firm view that there was no "half-way house" solution, and that if it were decided to terminate the Inquiry, the sooner it were done the better. The Tribunal is now hearing the evidence of Challis and will be adjourning for a short break between 28 June and 9 July. They rise for the long Vacation at the end of July. It is possible that, before then, Sir Claude Hayes will be examined. It would be extremely difficult, for obvious reasons, to terminate the Inquiry during the course of Hayes's evidence. If the Inquiry is to be terminated it should be terminated before he goes into the box and I would therefore urge that a decision be taken very soon.

/4.



CONFIDENTIAL



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ROYAL COURTS OF JUSTICE  
LONDON, WC2A 2LL

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15 JUN 1979

UNIT FILE NO. 10



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UNITED STATES DEPARTMENT OF JUSTICE  
FEDERAL BUREAU OF INVESTIGATION  
WASHINGTON, D.C. 20535

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ROYAL COURTS OF JUSTICE

LONDON, WC2A 2LL

PRIME MINISTER

## CROWN AGENTS INQUIRY

1. I have seen a copy of the Home Secretary's minute of 11 June. I agree that we should give serious consideration to abandoning the inquiry.
2. It is true that in Opposition we welcomed the motion for the establishment of the 1921 Act Tribunal. It should, however, be recognised that what, in effect, we were welcoming was the decision of the Labour Government to establish a public inquiry under the procedure of the 1921 Act rather than a private inquiry of the kind originally conceived by the Government of the day. The decision to hold a further inquiry was one which had already been taken by the Government. It should also be recalled that we abstained at the conclusion of the debate of 5 December 1977. I do not underestimate however the serious political difficulties that there will be in taking this course of action.
3. I agree with the Lord Chancellor that, whatever may be the legal position, we should seek the approval of both Houses of Parliament if we wish to discontinue the inquiry.
4. It may be that we should look for some "half-way house" by seeking to expedite the work of the inquiry in some way. Besides the informal soundings which the Home Secretary intends to carry out, it may be of advantage to ascertain whether there is a possibility of achieving such a compromise solution; in this regard it may be of some assistance if, when I see Counsel for the Tribunal, I sound out his views.
5. I am copying this minute to the recipients of that of the Home Secretary.

M.H.

14 June 1979









Lord Chancellor to Prime Minister

R15/6

Crown Agents Inquiry

1. I agree with the Home Secretary that there is a strong case for abandoning the Crown Agents Inquiry, the need for which I did indeed question at the time.
2. Whatever may be the legal position, I ~~am~~ believe ~~that~~ we should seek the approval of both Houses of Parliament before taking this step. *If we did not we shd. be accused of discourtesy to Parliament.*
3. There is substance in the "natural justice" point made in paragraph 4 of the Home Secretary's minute and I would like to see the informal soundings he suggests taken before we reach a final decision.
4. I am sending copies of this minute to the Home Secretary and to the others to whom he sent copies of his minute of the 11th June.

H. of S. M  
13 June 79





WITH  
THE COMPLIMENTS OF THE  
PRIVATE SECRETARY

HOME OFFICE  
50 QUEEN ANNE'S GATE  
LONDON SW1H 9AT

2<sup>nd</sup> copy



SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS

Crown Agents : Tribunal of Inquiry

I believe that we should give serious consideration to the possibility of disbanding the Tribunal of Inquiry into the Crown Agents affair. You may have seen from an article in The Observer of 20th May that the inquiry is likely to be going to drag on for well over another year. Some of those concerned in it are already talking privately of the possibility of its continuing into 1981. The cost of the inquiry is likely to be substantial: not less than £2½ million to £3 million, and the longer it goes on, the more it will cost. There now seems to be very little public interest in the affair. I am disposed to think that the costs which continue to be incurred outweigh any public benefit that is now likely to result from the Tribunal's report.

2. Before considering the modalities of disbandment, we must obviously decide whether the purpose for which the Tribunal was set up still needs to be pursued. The object was to discover to what extent there were lapses from accepted standards. Are we content to let matters rest and to contemplate no disciplinary or other similar action? It may be that nothing beyond the public exposure of lapses would have been possible in any case. While the effect of that might be salutary, it is questionable whether it would be cost-effective. I think that it is for you and other Ministers with a more direct concern for the departments involved in the affair to express a view on this.

3. We should have also to make an assessment of the political difficulties and consequences of bringing the inquiry to a halt now. In Opposition we welcomed the motion for the establishment of the tribunal in the House of Commons, and the present Attorney General said that a 1921 Act Tribunal was on the whole to be preferred to the



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then Government's proposal for a committee of inquiry sitting in private, though in the House of Lords the present Lord Chancellor questioned the need for a further inquiry. If we decided to bring the Tribunal to an end now, we should have to account for our change of mind, no doubt against criticism from the Opposition that we were conniving in a "cover-up".

4. If we decided to stop the inquiry, we should still need to take account of the position of those whose reputations have already been called into question, and who could claim that they had been denied the opportunity to clear themselves if the Tribunal was dissolved without a report. They would not be in so favourable a position as defendants in a criminal trial where, if the proceedings are abandoned, acquittal follows automatically. This is a matter we should have to discuss with the Tribunal. One possibility might be to try to secure that the proceedings were wound up by common consent, with all the parties receiving their costs on the recommendation of the tribunal. I should be ready to make some informal soundings of the Tribunal about this, if we decided to bring its work to an end.

5. As to the mechanics of dissolution, the tribunal is not established directly by statute, or in pursuance of a duty imposed by statute. All that the Tribunals of Inquiry (Evidence) Act 1921 does is to confer on it powers which it would not otherwise have. I am advised that, as a matter of law, the tribunal could be dissolved simply by an executive act, without legislation or any other form of Parliamentary approval.

6. Although the approval of Parliament is not required as a matter of law, we should have to consider whether it might be advisable for us to seek the endorsement by both Houses of a proposal to dissolve the tribunal. That would avoid the appearance of simply overriding the decision of a previous

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Parliament; on the other hand, it might well provoke more controversy, and more vociferous resistance from the official Opposition, than if we simply acted on our own responsibility. It would be easier to assess the advantages and disadvantages after consulting the Tribunal, when we were able to judge how far the Tribunal itself, and others directly concerned, were likely to agree to its being dissolved.

7. I am sending copies of this minute to the Prime Minister, the Lord Chancellor, the Chancellor of the Exchequer, the Lord President, the Chancellor of the Duchy of Lancaster and the Attorney General, and I should be grateful for your view and theirs as to whether we should contemplate the abandonment of the Tribunal and of its objectives. I am also sending copies to the Treasury Solicitor and Sir John Hunt.

W.S.

11th June 1979

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